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GOVERNMENT AND ADMINISTRATION

Northern Ireland: Constitutional Proposals

The Government has published proposals, in the form of a discussion document,[1] for the future government of Northern Ireland. They envisage a substantial transfer of powers to a new Northern Ireland Assembly and Executive and set out two broad options for participation by representatives of the minority community. The Secretary of State for Northern Ireland would retain responsibility for such matters as law and order and Northern Ireland's share of the public expenditure programme.

The Government is planning to hold further talks on the discussion document with the political parties in Northern Ireland. The proposals were debated in the House of Commons on 9 July (*Hansard*, Vol 988, No 209, cols 552-720) and at the end of the debate an Order was approved to renew for a further year the arrangements for direct rule under the Northern Ireland Act 1974.

Parliamentary Statement

In a statement to the House of Commons on 2 July on the publication of the constitutional proposals (*Hansard*, Vol 987, No 204, cols 1525-37), the Secretary of State for Northern Ireland, Mr Humphrey Atkins, referred to the conference held between January and March (see p 92) attended by three of the main political parties in the Province which, he said, had fully explored the questions that remained to be resolved if any kind of acceptable local administration was to be established in Northern Ireland. The discussion document had two principal aims. First, it described those areas where it was possible to see how powers might be transferred. There was a clear desire for the transfer of both legislative and executive powers over a range of subjects similar to those transferred in 1973 and for the establishment of a single elected Assembly. The Government at Westminster would continue to be responsible for certain functions, especially law and order and the determination of Northern Ireland's share of public expenditure. Secondly, the document analysed, and put forward for discussion, proposals on those matters where there was disagreement between the parties on how the executive powers of government were to be exercised to take account of the interests of both parts of the community. On the one hand, some wished to see the Executive formed by the leader of the party or parties commanding a simple majority in the Assembly; on the other, some believed that an adequate role for representatives of the minority community could only be assured if executive powers were exercised by a more broadly based body.

It was clear that further discussion and negotiation were needed and the Government had set out specific proposals on two somewhat different approaches as a basis for further talks with and between the parties. The Secretary of State hoped that the talks would be completed by the end of Parliament's summer recess.

The need for peace and stability in Northern Ireland as a basis for economic reconstruction was referred to in the discussion document, said Mr Atkins. Men of criminal violence would, if they could, disrupt the progress of political discussion and reconciliation. He appealed to the people of Northern Ireland to support the security forces against terrorism so that further discussions could take place quietly and with confidence.

Opposition View

The Opposition spokesman on Northern Ireland, Mr Brynmor John, said that his party wanted to see a properly devolved Assembly as the main aim but asked whether this would be established without a wide measure of agreement in the Province. The Opposition would do nothing to impede the talks between the communities. He endorsed what the Secretary of State had said about men of violence and agreed that law and order in Northern Ireland should remain under the control of the United Kingdom Parliament. He asked whether the Government would consider a referendum to validate proposals for constitutional change, to which Mr Atkins replied that he did not and never had ruled out this possibility.

The Discussion Document

The document sets out proposals for the government of Northern Ireland in the light of recent discussions, in particular the conference of political parties held earlier this year which is described in the first part of the paper. The second part of

[1] *The Government of Northern Ireland. Proposals for Further Discussion.* Cmnd 7950. HMSO, £1·50. ISBN 0 10 179500 9.

the document opens by stating that the needs of the people of Northern Ireland, which go deeper than any set of political institutions, are: peace and reconciliation; and stability, in the sense of a settled framework of government, to provide a base for economic reconstruction.

Reconciliation and Stability

The key to stability is the healing of the divisions between the two communities, says the document. 'New institutions of government which the minority community cannot accept as its institutions will not bring stability and so will not be worth having. It must therefore be in the interests of the majority community, desiring as it does stability and the fruits that this can bring, to accept institutions that offer opportunities of participation to the minority. Equally, it must be in the interests of the minority community, given institutions which afford its members opportunities of participation and safeguards against discrimination, to join wholeheartedly in making those institutions work.' The document is concerned with the government of Northern Ireland as a part of the United Kingdom, a constitutional status which it says clearly reflects the wishes of a substantial majority of the people of the Province. It affirms the principle of consent as the only framework 'within which those who wish to maintain Northern Ireland's present status within the United Kingdom and those who aspire to Irish unity can pursue their own objectives by legitimate and peaceful means'. It says that statutory provision exists for the wishes of the Northern Ireland electorate to be tested at intervals by a 'border poll' and says that successive Governments have made it clear that those wishes, whether to remain part of the United Kingdom, or to cease to be, would be respected. In the development of new political arrangements the majority community should be confident that Northern Ireland cannot be separated from the rest of the United Kingdom without the consent of a majority of its people; the minority community should accept and respect that fact and in response the majority should ensure a positive role for the minority community in arrangements for government. It was in the interests of both communities to recognise and develop links that exist between Northern Ireland and the Republic of Ireland.

Political Proposals

Proposals are set out for transferring to locally elected representatives some of the powers of government now exercised by the United Kingdom Parliament under the arrangements for direct rule. The document states that it is possible to see a form of local administration which would meet the exceptional circumstances of Northern Ireland but the way ahead is not clear on how provision should be made for the participation in government of representatives of the minority community. It therefore makes proposals for what is described as an 'outer framework', that is, the features which would be appropriate whatever the arrangements made for the participation of the minority community, together with options regarding the participation of the minority community.

The Outer Framework. Under the proposals for the outer framework the main features would be as follows:

a Province-wide administration based on a single elected body of about 80 members;

the method of election would be the single transferable vote form of proportional representation, the system used in Northern Ireland since 1973 except in parliamentary elections;

the range of subjects to be transferred would be broadly similar to those transferred in 1973, principally agriculture, commerce, education, employment, environmental matters, including housing, and health and social services;

the Secretary of State for Northern Ireland would retain responsibility for reserved matters, such as law and order, and for the consideration of Northern Ireland's public expenditure programme in the overall United Kingdom context;

an advisory council would provide a forum for general discussion and consultation with the Secretary of State on those matters on which he remained responsible to Parliament;

the Assembly would be empowered to legislate on transferred matters;

individual Assembly members would be responsible for the executive direction of the Northern Ireland departments;

there would be representative departmental committees with extensive investigatory, scrutinising, advisory and legislative powers;

existing safeguards against discrimination would be at least maintained.

Options for Minority Participation. Options are given in relation to the crucial question of the formation of the Executive. The document says that conventional approaches will not meet the essential requirement of a fair and responsible position for both communities in the administration of the Province. The first option made would meet the requirement by ensuring that any party represented in the Assembly and winning a certain proportion of the popular vote had a seat or seats in the Executive. Thus a party with, say, 25 per cent of the popular vote would be assured of a quarter of the Executive seats. The Executive could be formed by direct election by the electorate at large or by election from within the Assembly or by the allocation of seats to all parties in proportion to their strength in the Assembly. In whatever way the Executive was formed it would need to command and retain the support of at least 50 per cent + 1 in the Assembly.

The second option would achieve the requirement by balancing the power of the Executive, which would have no guaranteed places for minority representatives, against the power of another institution within the Assembly, the Council of the Assembly – composed of the chairmen and deputy chairmen of the departmental committees – on which minority representatives would have a prominent place. The Council of the Assembly would need to have certain formal powers as the

source of its influence on the overall administration of Northern Ireland. These might include powers to delay, refer back or block the Executive's legislative and public expenditure proposals and to refer discriminatory actions to an outside appeals body. To prevent exercise of these powers from bringing the process of government to a halt the Secretary of State might initially be required to act as arbiter and would have formal powers to do so, but it would be in the local parties' interests to develop conventions and procedures to avoid involving Westminster in the settlement of disputes.

By-election and State of the Parties

Details of the result of a recent by-election and the present state of the parties in the House of Commons are given below.

The Labour Party retained the seat at Glasgow Central in a parliamentary by-election on 26 June. The seat became vacant when its holder, Mr Thomas McMillan, died in April. The Labour candidate, Mr Robert McTaggart, won by a majority of 2,780 votes. The results were as follows:

R. McTaggart (Labour)	4,902
G. Paterson (Scottish National)	2,122
A. A. McCurley (Conservative)	707

Four other candidates between them polled 337 votes; they and the Conservative candidate all lost their deposits; 42·8 per cent of the electorate voted. With an electorate of 18,854, Glasgow Central is the smallest constituency in Britain.

State of the Parties

The state of the parties in the House of Commons is now as follows:

Conservative	337
Labour	267
Liberal	11
Scottish National	2
Plaid Cymru (Welsh Nationalist)	2
Official Unionist (Northern Ireland)	5
Democratic Unionist (Northern Ireland)	3
United Ulster (Northern Ireland)	1
Ulster Progressive Unionist (Northern Ireland)	1
Independent Socialist (Northern Ireland)	1
Independent (Northern Ireland)	1
TOTAL	631

The four remaining seats are held by the Speaker of the House of Commons and his three deputies who do not vote except in their official capacity in the event of a tie. The Government majority over all other parties is 43.

EXTERNAL AFFAIRS AND DEFENCE

European Community

Declarations on the Middle East, Lebanon and Afghanistan were issued by the European Council following its meeting in Venice on 12 and 13 June. Meetings of Community agriculture and fisheries ministers were held in Luxembourg on 16 and 17 June. The Government's views on the future of the Community's institutions were set out in the House of Commons on 10 June.

EUROPEAN COUNCIL

Prime Minister's Statement

In a statement made in the House of Commons on 16 June (*Hansard*, Vol 986, No 192, cols 1126-46), the Prime Minister, Mrs Margaret Thatcher, described the Venice meeting as a series of general discussions between the nine heads of Government about the fundamental problems within the Community and outside.

On the Middle East the Prime Minister said that the Council had restated the two principles that had for many years been the basis of the European Community position, namely 'the right of all the States in the region, including Israel, to existence and security', and 'justice for all the peoples' which implied 'the recognition of the legitimate rights of the Palestinian people'. A comprehensive settlement required that 'all the parties concerned should be bound by these principles'. The Council had decided 'to make contact with all the parties in order to ascertain their position' and Community diplomatic activity over the next few months was intended 'to be complementary to the Camp David process on which the United States, Egypt and Israel [were] still engaged' (see pp 352-5, 1978). Answering questions, Mrs Thatcher said that, while Britain could not recognise the Palestine Liberation Organisation (PLO) as the sole representative of the Palestinian people, the reality of the situation was that there would not be 'a comprehensive settlement ... unless the PLO [was] associated with it'. Likewise, if negotiations were to progress, 'just as the Israeli people will have to accept the legitimate rights of the Palestinian people so the Palestinian people, including the PLO, will have to accept Israel's right to exist behind secure boundaries and be prepared to guarantee those boundaries'.

With regard to the problems faced by the Community, the Prime Minister noted that all member states had similar problems of inflation and unemployment and that a number had an adverse balance of payments. The Council had reached agreement on the major short-term objective, namely the containment of inflation 'by means of appropriate monetary and fiscal policies'. There had been concern that the 100 per cent increase in the price of oil over the past year would lead to a recession in world trade and the heads of Government had been disturbed at the pressure for further oil price increases at the recent meeting of the Organisation of Petroleum Exporting Countries in Algiers. Noting that such an increase could only make worse 'the economic problems of the industrialised countries and give rise to intolerable burdens for the developing countries', Mrs Thatcher said that the Community remained willing 'to enter into a dialogue with the oil producers'.

Observing that the heads of Government had noted the budgetary settlement reached by the Council of Ministers in May (see pp 182-3), the Prime Minister said that there had been 'a useful, but necessarily preliminary, discussion of the need to put in hand and carry through urgently a review of the Community's financial position'. The opportunity had also been taken 'to have a first, informal, discussion about the choice of the next President of the Commission'. [The four-year term of office of the present President, Mr Roy Jenkins, runs out in January 1981.]

The Middle East

The Council's declaration on the Middle East said that a comprehensive exchange of views had been held on all aspects of the situation including the state of negotiations resulting from the agreements signed between Egypt and Israel in March 1979. The growing tensions affecting the region constituted 'a serious danger' and rendered 'a comprehensive solution to the Israeli-Arab conflict more necessary and pressing than ever'. The traditional ties and common interests linking Europe to the Middle East obliged the Community countries 'to work in a more concrete way towards peace'.

Basing themselves on the United Nations Security Council Resolutions 242 and 338 and previous Community declarations (see p 266, 1977), the heads of Government stated that the time had come 'to promote the recognition and implementation of the two principles universally accepted by the international community: the right to exist-

ence and to security of all the states in the region, including Israel, and justice for all the peoples, which implies the recognition of the legitimate rights of the Palestinian people'. All countries in the area were entitled 'to live in peace within secure, recognised and guaranteed borders'. The necessary guarantee for a peace settlement had to be provided by the United Nations, and the Community member states were prepared 'to participate within the framework of a comprehensive settlement in a system of concrete and binding international guarantees'. A just solution had finally to be found to the Palestinian problem which was not simply one of refugees. The Palestinian people, conscious of existing as such, had to be placed in a position 'to exercise fully its right to self-determination'.

The achievement of these objectives required 'the involvement and support of all the parties concerned in the peace settlement' which the Nine were endeavouring to promote in keeping with the principles formulated above. These had to be binding on all the parties including the Palestinian people and the PLO which would 'have to be associated with the negotiations'.

On the question of Jerusalem, the Community states recognised its 'special importance' for all the parties involved and refused to accept 'any unilateral initiative designed to change the status of Jerusalem'; an agreement on its future had to 'guarantee freedom of access for everyone to the Holy Places'.

Stressing the need for Israel to put an end to 'the territorial occupation' maintained since 1967, as it had done for part of Sinai, the Nine said that they were 'deeply convinced that the Israeli settlements [constituted] a serious obstacle to the peace process in the Middle East'. These settlements, as well as modifications in population and property in the occupied Arab territories, were 'illegal under international law'.

Considering that only 'the renunciation of force or the threatened use of force by all the parties [could] create a climate of confidence in the area, and constitute a basic element for a comprehensive settlement of the conflict in the Middle East', the Community countries decided 'to make the necessary contacts with all the parties concerned' in order to ascertain their position with respect to the principles set out above. In the light of these consultations, they would determine the form which an initiative on their part could take.

Lebanon

In a separate declaration on Lebanon, Community member states reaffirmed their 'full and complete solidarity' with Lebanon, whose stability remained 'dangerously threatened by confrontations in the region'. They renewed their 'urgent appeal to all the countries or parties concerned to put an end to all acts liable to damage the independence, sovereignty and territorial integrity of Lebanon or the authority of its Government'. Promising support for any action or initiative which could ensure the return of peace and stability, they stressed the 'important role' that the United Nations Interim Force in Lebanon (UNIFIL) had to play in the southern part of the country. Recalling their Luxembourg declaration of 22 April 1980 (see p 151), the Community member states said that it was 'essential that all the parties concerned permit UNIFIL to carry out the tasks with which it has been charged, including the control of the territory up to the international frontier'.

Afghanistan

In their statement on Afghanistan, member states noted with 'deep concern' the intensification of the military operations conducted by the Soviet Union in Afghanistan. These increased still further the sufferings of the Afghan people, emphasised the 'genuinely national nature of the resistance offered by an entire people', and threatened to 'jeopardise the climate of international relations for a long time to come'.

In these circumstances the European Council reaffirmed the necessity 'to find without delay the means of reaching a solution which, in keeping with the resolution of the United Nations General Assembly [see p 17], would ensure the withdrawal of Soviet troops' and the free exercise by the Afghan people of the right to determine their own future. Such a solution 'could be found in an arrangement which [would allow] Afghanistan to remain outside the competition among the powers and to return to its traditional position as a neutral and non-aligned state'. The Council recalled its Luxembourg proposition of 28 April (see p 151) that the great powers and the neighbouring states should undertake the necessary commitments to this end and, in particular, agree 'to respect the sovereignty and integrity of Afghanistan, to refrain from any interference in its internal affairs and renounce any stationing of troops on its soil or any forms of military association with it'. It also noted with great interest the creation in May by the Conference of Islamic Foreign Ministers of a committee to seek methods of achieving a comprehensive solution of this grave crisis.

FISHERIES

Giving details to the House of Commons about a meeting of Community fisheries ministers which was held in Luxembourg on 16 June (*Hansard*, 18.6.80, Vol 986, No 194, cols 1569-82), the Minister of Agriculture, Fisheries and Food, Mr Peter Walker, said that the main item on the agenda had been the principles governing the allocation of catch quotas between member states. Britain had made clear its view 'as to the importance of taking into account all the considerable losses in fishing opportunities for the [British] fleet that had taken place in the seas of third countries' and had stressed the need to recognise the proportion of fish in the waters of member states that was found within British fishing limits.

Mr Walker also pointed out that Britain had resisted a proposal, made contrary to clear scientific advice, that would have allowed herring fishing in certain areas in 1980. Ministers had agreed to an extension to 31 June of the interim decision on internal fishing arrangements which required member states to control fishing activities by their national fleets, having regard to the total allowable catches set by the Council (see p 73).

Noting that the Council had agreed to the ratification of agreements establishing fishing arrangements with a number of third countries, Mr Walker said that this would have no effect on current or future fishing arrangements. However, Britain had refused to agree to the signature of an agreement with Finland which envisaged the possibility that Finland could obtain a catch of herring in the North Sea. There had been 'an important discussion on the possibility of a long-term fisheries agreement with Canada', and Britain had pointed out that there could be 'serious implications' for the British market if 'unsuitable tariff concessions' on fish products were to be granted to Canada at a time when Britain was already suffering from a surfeit of imports. Noting that the British view was shared by three other delegations, Mr Walker said that the Commission had undertaken to have regard to these concerns in talks with the Canadian Government.

AGRICULTURE

Reporting on a meeting of the Community agriculture ministers held on 17 June, Mr Walker told the House of Commons on 18 June (for the *Hansard* reference see above) that the ministers had concluded discussions on the text of the regulations of the proposed sheepmeat regime (see pp 183-4) and that they had approved Britain's suggestion that the structure of prices be included in the one regulation. This would enable implementation to take place as soon as possible once negotiations with New Zealand and other countries had been finalised.

Commenting on discussions concerning the glasshouse industry, Mr Walker said that he had emphasised the problems faced by British producers and had 'urged the need for speedy action to secure fair terms of competition between producers in different member states'. Britain had been supported by a number of member states in its view that 'urgent action was necessary to eliminate the adverse effects of the gas price advantage Dutch growers were enjoying'. The Commission had agreed that such action was necessary and he hoped that it would be making proposals prior to the July meeting of the Council.

The Commission had indicated that it would shortly make proposals for access to the Community of New Zealand butter after 1980. A special committee of officials would consider the proposals in order that 'substantive discussion' could take place at the next agricultural ministers meeting on 22 July.

EUROPEAN COMMUNITY INSTITUTIONS

Debate in Parliament

Britain's views on the report of the Committee of Three on European Community Institutions were outlined by the Lord Privy Seal, Sir Ian Gilmour, in the House of Commons on 10 June (*Hansard*, Vol 986, No 189, cols 487-518). The report was prepared by Mr Edmund Dell, a former Secretary of State for Trade, M. Robert Marjolin, a former Vice-President of the European Commission, and Mr Barend Biesheuval, a former Dutch Prime Minister. It was published in Brussels at the end of 1979. Agreed by the member states at the European Council in December 1978, the committee's terms of reference were to examine the Community's institutions in the perspective of enlargement and to suggest practical ways of improving their operation. Sir Ian said that the report formed a 'useful basis' for ensuring that the Community worked 'with the minimum of cumbersome bureaucracy', and that with the implementation of those proposals accepted by the member states the Community would be well placed to meet the challenge of enlargement.

European Council

On the European Council, which brings together the heads of State or Government three times a year, Sir Ian said that in general Britain agreed with the report's recommendations for limited agendas, limited attendance, coherent preparation and follow-up, early circulation of documents, and presidency responsibility for drafting clear and accurate conclusions. However, Britain and a number of its partners had some doubts on the proposal that the European Council should adopt, in collaboration with the Commission, a master plan of priorities for the Community as a whole. This was not a task that the European Council should be called upon to perform; although the Government agreed that one of the Council's most important tasks was to give broad guidance, the danger in drawing up a formal plan of priorities was that it would become 'too rigid' or 'so general as to be virtually meaningless'.

Some difficulty had also been caused by a proposal that the President of the European Council should appear before the European Parliament once during each six-monthly presidency. Recognising 'the need to establish a positive relationship with the European Parliament', Sir Ian suggested that one way of furthering this might be for the Prime Minister to appear before the Parliament during the next British presidency (the last six months of 1981). Since one member state had difficulty with the proposal for constitutional reasons, the rule did not have to be rigid and each member state on assuming the presidency should be able to act as it saw fit.

The Council of Ministers

The report devoted considerable attention to ways of improving the efficiency of the ordinary meetings of the Council of Ministers. It considered the Council to be overburdened with detailed work restricting its freedom to concentrate on genuinely political issues. One of the recommendations was that the presidency should be free to delegate particular dossiers to other member states. Sir Ian commented that Britain, while not wishing to rule out this idea, saw 'considerable advantages in retaining unity of control within the presidency' and believed that any such delegation had to be a general decision by the Council as a whole. A more acceptable way of lightening the presidency's burden would be, as the report proposed, to make fuller use of the Council Secretariat.

Dealing with recommendations that there should be greater delegation of decision-taking to

the Commission and increased negotiating flexibility for the Committee of Permanent Representatives and lower-level working groups, Sir Ian said that Britain supported the objective of reducing the number of detailed issues that were at present brought before the Council. The Government wanted to see 'a greater winnowing out' by the Committee of Permanent Representatives with only the main policy differences coming for decision to the Council. Britain was also ready to consider delegating additional decision-taking responsibilities to the Commission on a case-by-case basis in accepted areas of Community activity.

Sir Ian noted the report's view that there should be an increased resort to majority voting in the interests of speeding up decision taking, and its acceptance of the Luxembourg compromise under which unanimity is required when important interests are at stake. The Government continued to attach 'great importance' to this and welcomed the report's statement that each member state had to be the judge of this. Britain would invoke the Luxembourg compromise if important national interests were involved.

The Commission

Sir Ian noted the report's conclusion that the role and authority of the Commission had declined in recent years. Thus, while it had recognised the value of the Commission as initiator and as guardian of the Treaties, it had proposed that, on enlargement of the Community, the Commission should be reduced to one member from each state in the interests of efficiency and to enable the Commissioners to act more as a collective body. Sir Ian pointed out that several of the larger member states which currently appointed two members each to the Commission were opposed to this recommendation. Britain, while recognising its advantages with regard to efficiency, doubted whether serious problems would arise on this score on the accession of Greece (in January 1981) which would raise the number of Commissioners from 13 to 14. The Government was inclined to see advantage in maintaining the present situation until the accession of Spain and Portugal when the matter should be reviewed again.

Commenting on the report's recommendations regarding the President of the Commission, Sir Ian said that the European Council had already agreed that the next President should be nominated six months in advance of taking office. Britain also believed that it made sense to consult the incoming President on the selection of other Commissioners, though Governments would of course wish to retain the last word in this matter. The British Government thought that it would be best to leave the allocation of portfolios for the collective decision of the Commission, and the President would naturally play a major part in the preparation of that decision. As to a suggestion that the European Parliament should be consulted before the appointment of the President and the Commissioners, Sir Ian pointed out that the Commission was answerable to the Parliament since the latter had the power, laid down in the Treaties, to dismiss it. Britain preferred to keep to the procedure providing for member governments to appoint the Commission by common accord.

The European Parliament

With regard to the European Parliament, the report recommended that the Commission should present its programme to the Parliament for debate and that both the Commission and the Council should make a more serious response to resolutions adopted by it. It also took the view that improvements should take place in the operation of the conciliation procedure providing for consultation between the Council and the Parliament on legislation with appreciable financial consequences. Sir Ian said that the Government attached importance to the role ascribed to the Parliament by the Treaties and was ready to play its part in working out practical improvements in these areas, provided that no change in the relationship established by the Treaties was involved.

Enlargement

Sir Ian said that the report had pointed out that the prospective enlargement of the Community would tend to make the functioning of the institutions more cumbersome and would extend 'the range of differing circumstances and interests among the member states'. It had urged them to maintain their solidarity and had argued strongly against any idea of a 'two-speed' Community. Sir Ian emphasised that the Government 'wholeheartedly' endorsed the rejection of any such idea which was 'fundamentally misguided'.

Opposition View

Replying, the official Opposition spokesman on foreign affairs, Mr Peter Shore, said that the Community's institutions had to reflect the reality of sentiment in Britain and elsewhere in the Community. In Britain there was a wish for alliance, good relations and practical agreement with the countries of Western Europe, but 'scepticism' about the meaning of Community and 'massive opposition' to the concept of union. Noting that the original architects of the Community had envisaged an ever-closer union among the people of Europe, Mr Shore said that the impetus to union had been inevitably checked when the Six became the Nine. Once further enlargement took place, it seemed inevitable that 'the vast differences of interest, development and history' motivating 12 different European nations would tilt the direction more towards the concept of alliance. Enlargement would mean 'a wider but looser association of European states'.

The most important institution in the Community, Mr Shore said, was the European Council. In its procedures it reflected, like the Council of Ministers, the alliance concept of the Community, with unanimity being the rule. He suggested that it should meet twice yearly, once in each six-monthly presidency, and at other times if required by major developments.

Mr Shore stressed the need to retain the veto power in the Council of Ministers and rejected the idea that there should be greater delegation to the

Commission and the Committee of Permanent Representatives which he described as 'unelected and bureaucratic bodies'. The powers of the Commission needed to be 'carefully watched and checked' for an 'enormous amount of unnecessary work' continued to be generated as it sought 'to stretch Community competence and interest into areas which [were] far outside the Treaty [of Rome] itself'. The Committee of Permanent Representatives should be brought under stronger political control. On the European Court, Mr Shore did not believe that its judgment should be binding on the Community; instead it should have the power to give advisory opinions.

Commenting on the political co-operation machinery under which the foreign ministers of member states meet outside the Treaty framework, Mr Shore said that this could play 'a sensible and useful role in international affairs', provided that it did not take precedence over other major international forums.

North Atlantic Treaty Organisation

Meeting in June, the North Atlantic Council called upon the Soviet Union to withdraw its forces from Afghanistan and to take positive steps to restore the mutual confidence necessary for a co-operative relationship between East and West. The Council also urged the Soviet Union to enter into arms control negotiations with the United States for the limitation of long-range theatre nuclear forces.

The Council, attended by the foreign ministers of the members of the North Atlantic Treaty Organisation (NATO), met in Ankara, Turkey, on 25 and 26 June. It was preceded by meetings of other NATO bodies, including the Defence Planning Committee and the Eurogroup. This article summarises the communiqués issued after these meetings, and the British Government's statement, on 17 June, regarding the siting of cruise missiles in Britain as part of NATO's modernisation programme for its long-range theatre nuclear forces.[1]

NORTH ATLANTIC COUNCIL

The International Situation

In reviewing the international situation, ministers noted with concern that the past six months had been overshadowed by developments which challenged the foundations of stability in the world. The violations of the rules enshrined in the United Nations Charter had led to tensions which were prejudicial to the understanding and trust which should govern relations between states. In this context they underlined the opposition of their governments to the threat or use of force and reaffirmed their commitment to the peaceful settlement of international disputes. In particular, they reaffirmed their determination to work together for the achievement of the fundamental ideals and aims of the Atlantic Alliance: national independence, security, human rights, democracy and the rule of law; and in this connection emphasised the importance of close political consultation within the Alliance.

Afghanistan and Détente

Ministers expressed their deep concern at the continued occupation of Afghanistan by Soviet armed forces and regarded this and the attempt to crush the national resistance of the Afghan people by massive military force as unacceptable. They noted also that the Soviet action carried with it very serious implications for the general strategic situation, the Soviet Government having clearly demonstrated its readiness to exploit opportunities to shift the balance of forces in its favour. It had thus given rise to grave concern about its future intentions and was threatening the security of a region which was vital for world peace and stability. While recognising that the region's security was primarily the concern of the countries there, ministers welcomed the fact that members of the Alliance were, by reason of their relations with these countries, in a position to contribute to its peace and stability. The international crisis also called for a resolute, constant and concerted response on the part of the Allies, and ministers reaffirmed that there could be no question of accepting a *fait accompli* resulting from the use of force. There had to be a political settlement which would provide for the total and immediate withdrawal of Soviet forces so as to enable the Afghan people to decide on their future peacefully with complete freedom and without outside pressure. Ministers welcomed the important role which the Islamic Conference and the non-aligned movement had assumed in the search for a political solution, but noted that Soviet-backed proposals had not addressed the basic issues and would subject the national independence and right of self-determination of the Afghan people to restrictions unacceptable in international law.

Ministers noted that the Soviet invasion of Afghanistan had seriously damaged détente, to which they reaffirmed their attachment. They also restated their willingness to work for the improvement of East-West relations and their wish to keep open the channels of communication between the countries of East and West, so as to make their views clear, to prevent misunderstanding, to facilitate a resolution of the present crisis, and to foster constructive co-operation, as circumstances permitted. They reaffirmed, however, that détente could not be pursued in one region of the world regardless of developments in another, and agreed that the restoration of a co-operative relationship had to be based on a foundation of mutual confidence. This had been shaken by recent Soviet actions, and could only be rebuilt by positive action on the part of the Soviet Govern-

[1]The British Government announced on 15 July that the successor to the Polaris strategic deterrent will be the Trident submarine-launched ballistic missile system, and that this will enter service in the early 1990s. The decision will be covered in more detail in the August editon of *Survey of Curent Affairs*.

ment to live up to the peaceful intentions which it professed.

Military Balance and Arms Control

Noting that there was no sign of any slackening of the substantial rate of growth in the quality, readiness and strength of the Warsaw Pact forces which threatened to increase the present military disparities, particularly in Europe, ministers re-emphasised their governments' resolve to take all necessary steps individually or collectively to maintain an adequate level of deterrence and defence across the full spectrum. In particular, they reaffirmed the importance of making more effective use of resources through co-operative equipment programmes and increased standardisation and inter-operability of weapons systems, and that they would continue to work towards more balanced relations among the European and North American allies in defence procurement. They stressed the significance of maintaining the technological advantages which NATO members possessed.

Ministers also reaffirmed NATO's parallel commitment to the pursuit of effective, balanced and verifiable measures of disarmament and arms control, though they noted that the prospects for these would depend on the restoration of international confidence and stability. NATO governments, they emphasised, wished to avoid a competitive arms race, but substantial reductions in the level of forces would only be possible if negotiations were based on a genuine willingness to achieve undiminished security for all participants and if the Warsaw Pact were convinced of NATO's determination to maintain an adequate level of defence. Reaffirming their governments' determination to play a full part in the current disarmament work of the Committee on Disarmament in Geneva as well as of the United Nations Disarmament Commission and other United Nations bodies, ministers underlined the importance of frequent and active consultations on arms control and disarmament questions within the Alliance.

Strategic Arms Limitation

Reaffirming their support for the Second Strategic Arms Limitation Treaty (SALT II), ministers hoped that circumstances would permit its early ratification by both sides, and that the continuation of the SALT process, on the basis of further close consultations within the Alliance, would lead to further reductions and qualitative limitations of nuclear weapons by the United States and the Soviet Union and create a favourable climate for progress in other fields of arms control.

Theatre Nuclear Forces

Ministers of countries which agreed in December 1979 to pursue the two parallel and complementary approaches on long-range theatre nuclear forces (LRTNF) modernisation and on arms control involving theatre nuclear forces (see pp 13-14), welcomed the repeated efforts of the United States, based on full consultations among the Allies concerned, to engage the Soviet Union in serious negotiations in the SALT III framework aimed at achieving verifiable limitations on Soviet and United States land-based LRTNF consistent with the principle of equality between the sides. Observing that, in response, the Soviet Union had continued to repeat unrealistic and unacceptable preconditions which would perpetuate inequality, the ministers called upon it to respond promptly and positively to the United States offers to negotiate and to enter into preliminary exchanges without any preconditions before the ratification of the SALT II treaty.

Turning to the current Soviet preponderance in LRTNF systems, these ministers noted not only that the systems deployed had already reached a dangerously high level, but that the Soviet Union was deploying for its SS20 force alone more warheads than were planned for NATO's modernisation programme, deployment under which would not begin until late 1983. This programme, which was designed to preserve NATO's deterrent capability against the background of existing LRTNF disparity, was deliberately restrained compared with the qualitative and quantitative growth in Soviet nuclear forces. In this regard, ministers also noted that the withdrawal of 1,000 United States nuclear warheads from Europe as an integral part of the LRTNF modernisation and arms control decision had begun, and recalled that the new LRTNF warheads to be introduced under the programme would be accommodated within the reduced level. They also reiterated that the scale of NATO's LRTNF requirements would be examined in the light of concrete results achieved through negotiations.

Mutual and Balanced Force Reductions

The ministers of the countries participating in the negotiations on mutual balanced force reductions affirmed their importance as a means of achieving a more stable force relationship in central Europe on the basis of genuine parity in military manpower, this to take the form of a common collective ceiling on ground force manpower and a combined common collective ceiling on ground and air force manpower for each side. They called on the Warsaw Pact states to give an early, constructive and substantive response to the West's proposals for an interim phase 1 agreement, which, approved in December 1979 (see p 12), provided a realistic framework for achieving agreement on a reduction and limitation of United States and Soviet ground force manpower in the area on the basis of agreed data on these personnel; and on associated measures which would aid verification of reductions and limitations, increase military stability, enhance mutual understanding of the military strength and activities of the other side, and diminish the risk of misunderstanding and miscalculation.

Conference on Security and Co-operation in Europe

Ministers noted that the Soviet intervention in Afghanistan had seriously affected the prospects of further progress by the Conference on Security and Co-operation in Europe (CSCE), and pointed out that the Soviet action was in violation of the principles to which it had committed itself in the

CSCE's Final Act (see pp 305-12, 1975). They also deplored the increased suppression in certain countries of human rights and fundamental freedoms and the harassment and punishment of those striving for implementation of the Final Act; expressed concern that implementation in the field of human contacts remained uneven; and regretted the lack of progress towards the freer flow of information. Considering the approach to the CSCE follow-up meeting at Madrid in November, ministers stressed the importance of maintaining the integrity of the Final Act, and agreed that Allied representatives at Madrid should engage in a thorough, frank and measured review of implementation with a view to stimulating improvement. They also agreed to continue to develop a balanced group of proposals and to remain prepared to discuss concrete proposals by other participants for balanced and significant progress in all fields of the Final Act; and endorsed their agreement of December 1979 to pursue, under the aegis of CSCE, militarily significant and verifiable confidence-building measures applicable to the entire continent of Europe (that is, including the European part of the Soviet Union). They hoped that circumstances would permit concrete results in this regard to be achieved at Madrid.

Berlin

On Berlin, ministers expressed satisfaction with the working of the 1971 Quadripartite Agreement, agreed that the situation in and around Berlin had been relatively quiet, and underlined the fundamental importance of an undisturbed climate in Berlin and on the access routes for the maintenance of security and stability in Europe. They also approved the agreement in April between the Federal Republic of Germany and the German Democratic Republic on improved road, rail and canal links between Berlin and the Federal Republic. Recalling the importance for the improvement of the situation in Europe of the Federal Republic's treaties with the Soviet Union, Poland, and Czechoslovakia as well as with the German Democratic Repubic, ministers reaffirmed their support for the Federal Republic's political objective to work towards a state of peace in Europe in which the German people would regain their unity through free self-determination.

The Mediterranean

Ministers underlined the necessity of maintaining the balance of forces in the Mediterranean, and noted that recent developments in South-West Asia had brought even more sharply into focus the great strategic importance of the south-eastern flank for NATO's security and for the overall balance of power in the region. The urgency for strengthening the economic and defence postures of these member countries had therefore increased, as had the need to restore full and undiminished solidarity between them. In this context, ministers hoped that Greece and Turkey would continue their joint efforts to resolve their differences peacefully.

Economic Assistance

Reviewing the problems of the economically less advanced member countries, ministers reaffirmed their urgent need for an increase in financial assistance and economic co-operation from those Allies which were in a position to do so. They also endorsed the establishment of a special five-year programme, 'Science for Stability', to strengthen the scientific and technological capabilities of Greece, Portugal and Turkey, and thereby to contribute to their economic development.

Middle East

With respect to the Middle East, ministers reaffirmed the importance of a just, lasting and comprehensive settlement of the Arab-Israeli conflict, believing that such a settlement should ensure the right of all states in the area, including Israel, to live within secure, recognised and guaranteed boundaries, as well as the achievement of the legitimate rights of the Palestinian people. They also affirmed that all parties concerned, including representatives of the Palestinian peoples, should participate in a negotiated settlement, for which United Nations Security Council resolutions 242 and 338, together with the principles stated above, should form the framework.

DEFENCE PLANNING COMMITTEE

The Defence Planning Committee met on 13 and 14 May, the Alliance's defence ministers being joined on the second day by the foreign ministers of the countries participating in NATO's integrated military structure. Reviewing the strategic issues facing the Alliance in the light of the Soviet invasion of Afghanistan, ministers agreed that those countries able to do so should use their best efforts to help to achieve peace and stability in South-West Asia, taking into consideration the interests of the regional countries and the value of their political co-operation. The burden, particularly in so far as defence measures were concerned, would fall largely upon the United States, and, noting that this might substantially increase in certain circumstances, ministers agreed that at the same time as the United States strengthened its defence capabilities for South-West Asia, Allied capabilities to deter aggression and to defend NATO Europe would also be maintained and strengthened. As an expression of their willingness to respond to the needs of the present situation, they agreed on a number of measures by individual countries to improve, by speeding up already agreed programmes, force capabilities in the NATO area, and instituted a review of other possible actions.

Ministers welcomed the evidence of closer collaboration among member nations in defence equipment matters as reported by the Conference of National Armaments Directors, and noted with satisfaction that the NATO Armaments Planning Review was proving a useful means of identifying opportunities for this. With regard to transatlantic co-operation, they welcomed the progress being made in the field of third-generation anti-tank weapons and air-to-air missiles and the prospects for a family of maritime mines. They also encouraged the search for greater use of new techno-

logy, including that now available in the commercial sphere, and considered that close attention should be given to the implementation of trade control provisions to prevent Soviet forces benefiting from the transfer of any technology which would enable them to modernise their forces more quickly and at lower cost. Ministers reaffirmed their support for the continuing work of the Eurogroup (see below).

After discussing questions connected with long-range theatre nuclear weapons (see p 207), ministers concluded by endorsing NATO force goals for the period 1981-86. There was full recognition that, in view of the current imbalance between NATO and Warsaw Pact forces, implementation of these force goals would represent a major factor in the maintenance of adequate Alliance defence. Accordingly, they pledged themselves to preserve and strengthen the military capabilities of the Alliance and reaffirmed the importance of member countries achieving and sustaining the aim of real increases in annual defence expenditures in the region of 3 per cent.

EUROGROUP

Meeting on 12 May, ministers of the Eurogroup countries[1] reaffirmed their commitment to shoulder their share of the defence burden, particularly in the light of the increased responsibilities of the United States resulting from recent developments. At the same time, they stressed that the maintenance of substantial United States and Canadian forces in Europe remained indispensable to the Alliance as a whole. These forces were 'a fundamental and irreplaceable contribution to deterrence'.

While emphasising the need to preserve a strong deterrent and defence capability in view of the increase in Soviet and Warsaw Pact capabilities, ministers reiterated their commitment to search for effective, balanced and verifiable measures of arms control and disarmament, on the basis of undiminished security, together with their determination to promote stability and peaceful relations with the Soviet Union. This, however, had to be done within 'the framework of a global, indivisible and reciprocal process of détente', the pursuit of which had been rendered all the more difficult by the Soviet invasion of Afghanistan.

Turning to the role of Eurogroup, ministers emphasised the need for close co-operation and consultation with a view to strengthening the European contribution to the Alliance; to developing the defence capabilities of their countries in the most rational and effective manner; and to resolving the major issues of European security within the Atlantic framework. They also agreed on the need to explain clearly the contributions and perspectives of the European Allies in order to demonstrate how these complemented and united with those of the Alliance's North American members to strengthen NATO as a whole. Welcoming the sound progress made by Eurogroup's sub-groups in increasing practical collaboration in specific areas, ministers stressed the importance of harmonising their work with related Alliance activities so that maximum benefits could be obtained, particularly in the training, logistic and equipment planning sectors. They also renewed their strong support for continuing close co-operation between European NATO countries in the Independent European Programme Group (see p 251, 1978).

[1]The members of Eurogroup are Belgium, Britain, Denmark, the Federal Republic of Germany, Greece, Italy, Luxembourg, the Netherlands, Norway, Portugal and Turkey.

CRUISE MISSILE SITES IN BRITAIN

The 160 cruise missiles to be deployed in Britain as part of NATO's programme for modernising its long-range theatre nuclear forces (see pp 13-14) will be stationed at two existing airforce bases, Greenham Common in Berkshire, where the United States Air Force has a standby base, and Molesworth in Cambridgeshire. Announcing this in the House of Commons on 17 June (*Hansard*, Vol 986, No 193, cols 1342-58), the Secretary of State for Defence, Mr Francis Pym, said that the decision to use existing bases stemmed from the prime operational need to bring the first missiles into service as soon as possible. The missiles would be stored in purpose-built shelters in conditions that fully met Britain's very stringent safety standards – standards that had proved themselves effective since the inception of a nuclear capability in Britain. Britain's share of the cost of the modernisation programme throughout NATO, he added, would total some £16 million.

The Alliance-wide support for the new system and its widely spread deployment throughout Europe, Mr Pym explained, was a clear expression of the determination of NATO as a whole to preserve its security. The Soviet Union had developed a large and expanding capability in long-range theatre nuclear forces which directly threatened the whole of Western Europe. In view of this markedly increasing threat, the Alliance had decided that it was essential to modernise its own theatre nuclear forces which were ageing and becoming increasingly vulnerable. At the same time the Government and the Alliance remained fully committed to the parallel arms control approach which had been agreed in December as part of the modernisation decision. The Soviet Union had rejected repeated offers by the United States to negotiate and had maintained its obviously unacceptable demand that NATO should abandon its modernisation programme as a precondition for negotiation. However, efforts would be continued to try and persuade the Soviet Union to come to the table and play its part in a genuine negotiation.

The Brandt Report

At the Venice economic summit (see p 213) leaders of the seven nations represented welcomed the Report of the Independent Commission on International Development Issues – commonly referred to as the Brandt Report – and agreed to consider carefully its recommendations. Some of the British Gov-

ernment's conclusions following its study of the report were outlined by the Lord Privy Seal, Sir Ian Gilmour, during a debate in the House of Commons on 16 June.

The Commission's report was published in March and is summarised in the April edition of *Survey of Current Affairs* (see pp 101-5). Mr Edward Heath, a former British Prime Minister and a member of the Commission, spoke in the Commons debate.

Lord Privy Seal's Speech

The International Economy

Opening the debate (*Hansard*, Vol 986, Nos 192-3, cols 1156-262) Sir Ian said that the report had made a most valuable contribution to public debate in a crucial field. Commenting on its view that the world economy was in a state of crisis and, in particular, that the prospects for many developing countries were deeply disturbing, Sir Ian said that the Government fully accepted that there were very serious difficulties ahead. Indeed, recent oil price increases had made many of the Commission's forecasts look optimistic. For example, the size of the current account deficit of non-oil developing countries was now likely to reach $55,000 million in 1980, while the developed economies faced a balance of payments deficit of some $100,000 million. The oil-exporting countries on the other hand would have a current account surplus of over $130,000 million in 1980. These imbalances were likely to show little change in the next few years, and the strains facing the economic and financial system and the human suffering involved would thus be very great.

Britain fully recognised the enormous difficulties facing the Third World, Sir Ian continued, but it was not true that the problems lay entirely in the South and that it was merely for the North to respond generously to them. The recent oil price increases, for example, would inevitably affect the capacity of the North for aid and trade. It had been calculated that by 1981 the real income loss to member countries of the Organisation for Economic Co-operation and Development (OECD) would be between $300,000 million and $400,000 million, and for the world economy to recover from this shock, the developed economies – 'the motor of world prosperity' – would have to adjust to the new circumstances. Only then could growth be resumed. In the long run, Sir Ian added, this was also in the interests of the less developed countries which depended on the North for markets, manufactured goods, finance and aid. The Government, therefore, welcomed the stress laid in the report on the need for measures of mutual interest. While Britain recognised the importance of the Third World in the international economy, and fully accepted that its economic health was vitally important not only in itself but for the North's own well-being, the Government also believed that the problems to be solved by measures of mutual interest were themselves mutual and that this should be recognised.

In approaching these complex problems, Sir Ian pointed out, it was necessary to take into account a general problem to which the Brandt Report made relatively little reference – inflation. This was a central problem for everyone, and a new round of inflation had been triggered off by a massive and continuing transfer of income to the oil producers. At the OECD ministerial meeting in June, there had been a wide measure of agreement on the need for tough measures against inflation.

Energy

Turning to the energy question, the Lord Privy Seal pointed to the need to prevent the recurrence of the oil shocks which had damaged the economic performance and prospects of developed and developing countries alike in 1974 and again in 1980. In this, the Government agreed with much of what the Brandt Report proposed, particularly its recognition that the problem required action by all members of the international community, by producers as well as consumers, and in the South as well as in the North. It was vital that all countries adjusted to the new reality of higher oil prices. For developing countries this could mean a reduction in non-oil imports and, therefore, of growth over the relatively long time that adjustment would take. For oil exporters it meant accepting greater responsibility for the direct recycling of their surplus funds while increasing their non-oil trade with the less developed countries and the North.

As for the suggestion of an accommodation between oil consumers and producers with the aim of achieving more secure supplies, more rigorous conservation, more predictable changes in oil prices and more positive measures to develop alternative supplies, Sir Ian said that this deserved careful study. Such an accommodation would not be easy to reach, but despite the differing and important interests of the various parties the Government hoped that common ground would be found. Each country had to play its part in ensuring that energy did not continue to be a major constraint on the growth of the world economy. For its part, Britain was pursuing, in the European Community and at the International Energy Agency (see p 190), many of the report's proposals which concerned oil-consuming countries. It was taking measures both direct and via the price mechanism to encourage conservation now and in the future. It would also continue to stimulate the search for new resources – both conventional and those involving new technology. As for the important question of finding new supplies of energy within developing countries, Sir Ian said that Britain recognised that they would need help in doing this, and hoped that the World Bank, which was about to review the issue, would examine all the possibilities freshly and vigorously. Britain also looked to increased activity by the private sector, and hoped that the developing countries would take more account of the beneficial effects of private investment in this area.

Recycling of Surplus Funds

The recycling of funds from surplus holders to those in deficit, Sir Ian said, was necessary both for balance of payments and development reasons. With the large amounts involved, the

private banking sector would bear the brunt of the burden, and the Government believed it would, as in the past, show itself to be remarkably adaptable and flexible in meeting this challenge. The role of the international financial institutions would also be crucial, particularly for those countries which had already borrowed extensively and for those which did not have the resources to attract commercial lending. An enhanced role for the International Monetary Fund and World Bank Group was also crucial because of their influence on flows of commercial lending. In this context, Sir Ian observed that the International Monetary Fund had recently taken steps to enlarge its available resources and to lengthen the repayment periods for medium-term adjustment; while the World Bank Group, in addition to increasing its resources, had introduced an important new policy for lending for structural adjustment programmes. These institutions were also taking account of the interesting ideas in the Brandt Report relating to their work.

Economic Development

Emphasising that for some countries economic development was not just a question of improving living standards but was 'simply a matter of survival', Sir Ian welcomed the report's work on the plight of the poorest, and on the need for a general attack on the problems of food and agricultural development. Britain's aid performance – 0·52 per cent of gross national product (GNP) in 1979 – was substantial even under the present circumstances, Sir Ian said, and compared favourably with other donors. [The average for members of the OECD's Development Assistance Committee in 1979 was 0·34 per cent.] It also remained committed to the 0·7 per cent of GNP target for official development assistance, though, because of its present economic circumstances, the Government could not give a final date for its achievement. Sir Ian assured the House that an important guideline of Britain's aid policy would continue to be that it should be directed at those most in need and, in particular, towards meeting the urgent need for increased food and agricultural production.

Trade

Expressing sympathy with the report's proposals for reduced tariff barriers for the agricultural products of the South, Sir Ian pointed to the contribution made by the recent Tokyo round of negotiations under the General Agreement on Tariffs and Trade (GATT – see pp 156-8, 1979) and the special arrangements under the Lomé Convention, particularly for sugar and beef (see pp 322-3, 1979). There was also the possibility of improving the Generalised Scheme of Preferences. More generally, Sir Ian said that Britain shared the Brandt Commission's view on the importance of international trade in the development process. It believed, however, that the report had considerably undervalued the efforts of the industrialised countries, especially in the context of the multilateral trade negotiations and GATT. The European Community had also been active in this area through the Lomé Convention and its STABEX arrangements, and the recently agreed progressive liberalisation of Community trade in jute goods would be of particular benefit to developing Commonwealth countries such as India and Bangladesh. There was also the recent successful conclusion of a food aid convention as part of the progress towards an international grains agreement. At their ministerial meeting in June, Sir Ian added, the OECD countries had made absolutely clear their continued support for the open trading system.

Private Investment

Pointing to the economic success of countries such as Singapore and South Korea as illustrating what could be done if favourable investment conditions were encouraged, Sir Ian said that Britain agreed with the report's call for an end to the mutual suspicion and tension between multi-national corporations and host countries. The Government recognised the value of non-mandatory codes of conduct, such as the OECD's guidelines (see pp 237-8, 1979) and the code now being discussed at the United Nations. It was also actively pursuing bilateral investment, promotion, and protection agreements, as well as double taxation agreements, believing that these would help to build confidence among potential investors. In addition, Britain had completely suspended its exchange controls (see pp 338-9, 1979), thus freeing the flow of private development funds.

Conclusion

Many of the Brandt Commission's conclusions, Sir Ian continued, were similar to those of the British Government, but there were areas where Britain believed the report had not gone far enough. It should have taken more account of the dismal aid record of the Soviet bloc (in 1978 Soviet aid to non-client states was only 0·02 per cent of GNP); placed greater stress on the ability of the private sector to respond to the challenge of development; and made more reference to the measures which the developing countries could take to help themselves. In addition Britain considered that the report, in calling for changes to be brought about mainly through government action, exaggerated the capacity of governments to control the world economy, so much of which was in private hands. Britain also believed that, at a time of serious economic difficulty, it would be preferable to continue the evolution of the present system in response to the challenges facing it rather than to make wholesale changes to the rules governing development and trade or international institutions. By changing gradually to meet needs, existing structures and institutions could be used to the best advantage and to mutual benefit. As for the report's suggestion of a summit of world leaders to launch the proposed emergency programme, Sir Ian agreed this might be useful, but it would need a good deal of preparation and would have to be carefully timed.

In conclusion, Sir Ian said that the British Government fully realised the seriousness of the problems facing both the developing and developed world. Major efforts would have to be made

to tackle these problems – by developing countries in the first instance, as they themselves would wish, by the adaptation of markets in response to economic forces and, in those fields where they could be effective, by governments. There was much in the Brandt Report on which to build in seeking solutions. This was a matter not of benevolence but of survival. The report's outstanding achievement was to demonstrate conclusively that the interests of all countries in the world, developed or developing, North or South, were mutual, and that all countries had a great deal to do in tackling the world's problems. In this, Britain was ready to play its full part.

Opposition Views

The official Opposition spokesman on foreign affairs, Mr Peter Shore, said the report was of 'outstanding importance'. In particular, it brought together all the main problems facing mankind and insisted that these, which were not separate but inter-related aspects of the human condition, could only be surmounted by the adoption of a fresh global strategy. It also convincingly demonstrated that existing policies, both economic and political, were leading mankind into a cul-de-sac, and pointed out that a new exercise of political will was essential if mankind was to overcome its present dilemmas.

Mr Shore hoped that Sir Ian Gilmour's statement did not represent the Government's last word on the report, for a great deal of further discussion was necessary. More specifically, he emphasised the present need for an immediate rather than a long-term solution to the energy problem; thought it unlikely that the private banking sector would be able to finance the colossal scale of indebtedness which now faced developing countries; and said that Britain could not escape from the report's argument for a substantial increase in aid resources on the grounds of a relatively good performance in the past.

Reviewing the world economy, Mr Shore said that, in his view, the cartelisation of oil production and oil prices presented the single most important block to economic progress. This was not only because of the resulting balance of payments deficits of industrialised countries and the problems soaring oil import costs posed for the less developed nations, but also because the oil producers were unable to turn their vastly increased revenues into effective demand for goods and services. So far the world community had failed to meet the challenge of this situation, and as a result the world was moving from recession to slump, though Mr Shore also suggested that this was partly due to industrialised nations pursuing deflationary policies because of their 'current obsession with inflation'. These policies were leading to mounting unemployment and falling demand and, far from increasing the transfer of resources to the developing countries, were reducing still further their export opportunities.

In conclusion, Mr Shore said that he endorsed the report's central theme of mutuality of interest between North and South; believed that the arms race should be halted and attempts made to limit the sales of arms to developing countries; and agreed that there should be a progressive transfer of resources to the developing countries. He also spoke of the importance of the report's proposal for a world conference and of the need for urgent action on its proposed emergency programme.

Shorter Notes

THE CROWN AGENTS

Information concerning the professional, technical and commercial services provided in 1979 by the Crown Agents for Oversea Governments and Administrations for over 300 public organisations in nearly 100 countries is contained in the Chairman's Review and Accounts 1979.[1]

The total value of the 16,000 orders placed for general supplies on behalf of its principals (that is, customers) amounted to £85 million and included purchases of public works and building materials, medical supplies, paper and printing materials, and livestock. Engineering work for overseas countries included new road construction, the supply of locomotives and other railway equipment, marine vessels, road vehicles, and cargo handling equipment. A major project was work carried out in connection with a World Bank loan to Kenya for the development of telecommunications in rural areas. Large orders were also placed for telecommunications and television equipment in Brunei and for civil aviation aids, mainly for Nigeria. Urban development engineering work completed in 1979 included an airport night landing project in Saint Vincent and the Grenadines, civil design work for power projects in Nepal and Mozambique, and a dam project in the Seychelles. The Health Care Service, established experimentally in 1978, became an integrated health division from 1 January 1980 and covers procurement work in drugs, pharmaceuticals, medical supplies and equipment, together with consultancy services and the recruitment of senior medical staff, doctors, nurses and other specialists in health care.

Also covered in the report is the Crown Agents' involvement in Britain's aid programme. Some 204 loans and grants were administered, and funds totalling £367 million disbursed, on behalf of the Overseas Development Administration in 1979. Aid accounts managed on behalf of principals increased from 142 in 1978 to 167 by the end of 1979, these involving aid funds totalling £1,407 million. In addition, assistance was provided in disaster relief operations, notably aid to Uganda in the provision of engineers and specialists, Land-Rovers, food packs, clothing, and camping equipment. Emergency requests from many countries for medical supplies were met and disaster relief supplies were sent to Dominica and to Saint Vincent and the Grenadines.

Investment funds managed by the Crown Agents were valued at some £2,000 million at the end of the year.

[1]Available free from the Crown Agents, 4 Millbank, London SW1P 3JD.

Venice Economic Summit

The economic summit held in Venice on 22 and 23 June was mainly devoted to energy, the price of oil, and the stability of the world economy. The shared immediate top priority was the reduction of inflation. A declaration of intent to break the existing link between economic growth and the consumption of oil seeks a large increase in the use of coal, enhanced use of nuclear power in the medium term and a substantial long-term increase in the production of synthetic fuels, and the use of solar and other sources of energy. The seven heads of State and Government called for the complete withdrawal of Soviet troops from Afghanistan and for the Afghan people to be left free to decide their own future.

The heads of State and Government of seven of the major industrial countries – Britain, Canada, France, the Federal Republic of Germany, Italy, Japan and the United States – met to discuss common economic problems, with particular reference to the price and supply of energy and the implications for inflation and the level of economic activity.

In a statement on the summit, made in the House of Commons on 24 June (*Hansard*, Vol 987, No 198, cols 231-3), the Prime Minister, Mrs Thatcher, said that the measures agreed, which were essential to non-inflationary growth and increased employment, were 'entirely in line' with the policies the Government was pursuing in Britain. On the economic side, she said, the meeting was largely concerned with carrying forward work begun in 1979. The meeting had offered a timely opportunity, which had been taken, for the heads of State and Government to reaffirm their unity of purpose on the political and economic difficulties that they faced.

The main points of the final declaration on economic matters and of the declarations on Afghanistan and on refugees, hijacking and diplomatic hostages are given below.

ECONOMIC MATTERS

Inflation

The declaration on economic matters states that the reduction of inflation is the top priority of the seven nations, requiring 'determined fiscal and monetary restraint' and 'continuing dialogue among the social partners' to break inflationary expectations.

The countries were also committed to encouraging investment and innovation so as to increase productivity, to fostering the movement of resources from declining into expanding sectors so as to provide new job opportunities, and to promoting the most effective use of resources within and among countries. This would require shifting resources from government spending to the private sector and from consumption to investment, and avoiding or carefully limiting actions that sheltered particular industries or sectors from the rigours of adjustment. Measures of this kind might be economically and politically difficult in the short term but were essential to sustained non-inflationary growth and to increasing employment.

Energy

It is essential, the declaration continues, to break the existing link between economic growth and the consumption of oil, and the intention is that this should be done during the present decade. This would require conservation of oil and a substantial increase in the use of alternative energy sources. To this end, maximum reliance should be placed on the price mechanism, and domestic prices for oil should take into account representative world prices, market forces being supplemented, where appropriate, by effective fiscal incentives and administrative measures. The heads of State and Government welcomed the recent decisions of the European Community, the International Energy Agency and the Organisation for Economic Co-operation and Development regarding the need for long-term structural changes to reduce oil consumption, continuing procedures to monitor progress, the possible use of oil ceilings to deal with tight market conditions, and co-ordination of stock policies to mitigate the effect of market disruption.

To conserve oil the heads of State and Government agreed that no new base-load oil-fired generating capacity should be constructed in their countries except in exceptional circumstances and that the conversion of oil-fired capacity to other fuels should be accelerated. They would increase efforts, including fiscal incentives where necessary, to speed up the substitution of oil in industry; they would encourage oil-saving investments in residential and commercial buildings; and they aim to introduce increasingly fuel-efficient

vehicles and to make public transport more attractive.

It is necessary, the declaration states, to rely on fuels other than oil to meet the energy needs of future economic growth. The seven nations' potential to increase the supply and use of energy sources other than oil over the next ten years had been estimated at the equivalent of 15-20 million barrels of oil a day and the heads of State declared their intention to 'make a co-ordinated and vigorous effort to realise this potential'. They would encourage the exploration and development of their indigenous hydrocarbon resources in order to maximise production on a long-term basis. A joint intention was declared to double coal production and use by early 1990. [In answer to a question from the leader of the Opposition, Mrs Thatcher said in the House of Commons on 24 June (*Hansard*, Vol 987, No 198, col 235) that Britain had the largest coal-based economy of the countries attending the summit and already produced more than two-thirds of its electricity from coal. The summit declaration on coal was particularly directed at the United States and Canada. The communiqué was also a request to some non-coal producing countries, such as Italy and Japan, to use more coal rather than oil. For information about Britain's coal industry see p 222.]

While conscious of the environmental risks associated with increased coal production and consumption, the heads of State and Government would do everything in their power to ensure that increased use of fossil fuels, especially coal, did not damage the environment.

They underlined the vital contribution of nuclear power to a more secure energy supply. Its role had to be increased if world energy needs were to be met. While expanding their nuclear generating capacity they would 'continue to give the highest priority to ensuring the health and safety of the public and to perfecting methods for dealing with spent fuels and disposal of nuclear waste. We reaffirm the importance of ensuring the reliable supply of nuclear fuel and minimising the risk of nuclear proliferation.'

The leaders actively supported the recommendations of the International Energy Technology Group, proposed at the Tokyo summit (see p 199, 1979) for bringing new energy technologies into commercial use at the earliest feasible time. As far as national programmes were concerned they would adopt by 1981 a two-phased approach, listing the numbers and types of commercial-scale plants to be constructed in each of their countries by the mid-1980s, and indicating quantitative projections for expanding production by 1990, 1995 and 2000. They would join others in creating an international team to promote collaboration among interested nations on specific projects. A high-level group of representatives of the countries present and of the EEC Commission would review periodically the results achieved in these fields. The heads of State and Government expected their energy strategy for the next decade to reduce the ratio between increases in collective energy consumption and economic growth in their countries to about 0·6, to reduce the share of oil in their total energy demand from the present 53 per cent to about 40 per cent by 1990 and to bring collective consumption of oil in 1990 significantly below the present level so as to 'permit a balance between supply and demand at tolerable prices'.

They would welcome a constructive dialogue on energy and related issues between energy producers and consumers in order to improve the coherence of their policies.

Relations with Developing Countries

The summit participants expressed their deep concern about the impact of the oil price rises on the oil-importing developing countries. They approached 'in a positive spirit' the prospect of global negotiations in the framework of the United Nations and the formulation of a new international development strategy. In particular their object was to co-operate with the developing countries in energy conservation and development, expansion of exports, enhancement of human skills and the tackling of underlying food and population problems. They believed that the view that a major international effort was required to help these countries increase their energy production was one that was gaining ground among the oil-exporting countries. They called on the World Bank to examine the adequacy of the present resources and mechanisms for the exploration, development and production of conventional and renewable energy resources in oil-importing developing countries and to consider means by which it might improve and increase its lending programmes for energy assistance.

The heads of State and Government were ready to join the developing countries and the international agencies in their long-term strategies to increase food production. They stressed the importance of wider membership and of an 'equitable' replenishment of the International Fund for Agricultural Development. They strongly supported the general capital increase of the World Bank, increases in the funding of the regional development banks and the sixth replenishment of the International Development Association and would welcome an increase in the rates of lending of these institutions. They welcomed the report of the Brandt Commission (the Independent Commission on International Development Issues – see pp 101 and 209) and would carefully consider its recommendations. However, the communiqué continues: 'The democratic industrialised countries cannot alone carry the responsibility of aid and other different contributions to developing countries: it must be equitably shared by the oil-exporting countries and the industrialised Communist countries.'

Monetary Problems

The heads of State and Government looked to the international capital market to continue to play the primary role in rechannelling the substantial oil surplus funds 'on the basis of sound lending standards'. They supported the work in progress by their own monetary authorities and the Bank for International Settlements, designed to improve the supervision and security of the international

banking system. They felt that private banks could usefully supplement these efforts.

Private lending would need to be supplemented by an expanded role for the international institutions, especially the International Monetary Fund (IMF). The summit members were committed to implementing the agreed increase in the IMF quotas and to supporting appropriate borrowing by the Fund if this was needed to meet the financing requirements of its members. They encouraged the IMF to seek ways in which it could, within its guidelines on conditionality, make it more attractive for countries with financing problems to use its resources. In particular they supported the IMF's examination of possible ways to reduce charges on credits to low-income developing countries. They welcomed the World Bank's innovative lending scheme for structural adjustment and urged the oil-exporting countries to increase their direct lending to countries with financial problems, thus reducing the strain on other recycling mechanisms.

They reaffirmed their commitment to stability in foreign exchange markets and would continue to co-operate closely on their own exchange market policies. They supported continuing examination by the IMF of arrangements to provide for a more balanced evolution of the world reserve system.

Trade

The summit members resolved further to strengthen the open world trading system, resisting pressures for protectionist actions. They endorsed the 'positive' conclusion of the multilateral trade negotiations (see pp 156-9, 1979) and committed themselves to early and effective implementation. They called for the full participation of as many countries as possible in strengthening the system of the General Agreement on Tariffs and Trade and urged 'the more advanced of our developing partners' gradually to open their markets over the coming decade.

Determined to avoid a harmful export credit race, they would work to strengthen the international arrangement on export credits, with a view to reaching a mutually acceptable solution covering all aspects of the arrangement by 1 December 1980.

AFGHANISTAN

In a statement on Afghanistan the heads of State and Government described the Soviet Union's military occupation of Afghanistan as unacceptable and emphasised their determination not to accept it in the future. The occupation was 'incompatible with the will of the Afghan people for national independence, as demonstrated by their courageous resistance', with the security of the states in the area, with the principles of the United Nations Charter, and with efforts to maintain genuine détente. It undermined 'the very foundation of peace, both in the region and in the world at large'.

Noting that Afghanistan should be enabled to regain its former sovereignty, territorial integrity, political independence and non-aligned character, the seven nations called 'for the complete withdrawal of Soviet troops and for the Afghan people to be left free again to determine their own future'. They also took note of a Soviet announcement (made on 22 June) of the withdrawal of some troops from Afghanistan. However, if a useful contribution to the solution of the Afghan crisis was to be made, this had to be 'permanent and continue until the complete withdrawal of the Soviet troops'. Only then would it be possible 'to re-establish a situation compatible with peace and the rule of law'. Expressing their resolution to do everything in their power to achieve this objective, the seven leaders said that they would support 'every effort designed to contribute to the political independence and the security of the states of the region'.

Finally those of the seven governments who had opposed attendance at the Moscow Olympic Games 'vigorously' reaffirmed their positions.

REFUGEES

The seven heads of State and Government expressed their deep concern at the plight of the ever-increasing number of refugees throughout the world and pointed out that hundreds of thousands had already left the Indo-Chinese peninsula and Cuba, many at the risk of fleeing across the open seas. Pakistan and India had received almost a million from Afghanistan and refugees in Africa numbered several million. Paying tribute to the generosity and forebearance of the receiving countries in the regions affected, they noted with regret the growing refugee population and its continuing suffering despite major international relief efforts. The seven countries had 'already responded substantially to appeals for assistance to aid resettlement of refugees' and would continue to do so. Noting that their resources were not unlimited, they appealed to others 'to join with them in helping to relieve this suffering'. They emphasised the need to tackle the root cause of the problem and made a 'vigorous appeal to the Governments responsible for it to remove the causes of this widespread human tragedy and not to pursue policies which drive large numbers of their people from their own countries'.

HIJACKING

Emphasising that hijacking remained a threat to international civil aviation and that there should be no relaxation of efforts to combat this threat, the heads of State and Government expressed satisfaction at 'the broad support of the international community' for the principles set out in the Bonn Declaration of July 1978 (see p 296, 1978) and the international conventions dealing with unlawful interference with civil aviation. They pointed out that 'the increasing adherence to these conventions and the responsible attitude taken by states with respect to air hijacking reflects the fact that these principles are being accepted by the international community as a whole'.

TAKING OF DIPLOMATIC HOSTAGES

Noting their grave concern at recent terrorist incidents involving the taking of hostages and attacks on diplomatic and consular premises and their personnel, the heads of State and Government reaffirmed 'their determination to deter and combat such acts'. They noted the completion of work on the International Convention against the Taking of Hostages and called on all states to consider becoming parties to it as well as to the Convention on the Prevention and Punishment of Crimes against Internationally Protected Persons of 1973. All governments had to take 'appropriate measures to deny terrorists any benefits from such criminal acts'. They also resolved to provide support and assistance to 'one another's diplomatic and consular missions ... in situations involving the seizure of diplomatic and consular establishments or personnel'. Every state had 'the duty under international law to refrain from organising, instigating, assisting or participating in terrorist acts in another state or acquiescing in organised activities within its territory directed towards the commission of such acts'.

Financial Institutions

Among the major subjects considered by the Committee to Review the Functioning of Financial Institutions in its report, published on 25 June,[1] are: aspects of the functioning of financial institutions; the financing of industry and trade; prudential regulation of financial institutions; the Bank of England; and the question of public ownership of the banking and insurance sectors.[2] The Government is studying the Committee's findings and recommendations.

The Committee was formally established in January 1977 with the following terms of reference: 'To inquire into the role and functioning, at home and abroad, of financial institutions in the United Kingdom and their value to the economy; to review in particular the provision of funds for industry and trade; to consider what changes are required in the existing arrangements for the supervision of these institutions, including the possible extension of the public sector, and to make recommendations.'

The Committee has already published an interim report *The Financing of Small Firms* (see pp 105-6, 1979) as well as 13 volumes of written and oral evidence, a progress report and three research studies.

[1]*Committee to Review the Functioning of Financial Institutions* (Chairman Sir Harold Wilson). Report and Appendices. Cmnd 7937. HMSO, £10·50. ISBN 0 10 179370 7.

[2]An addendum to the report, criticising the use of monetary targets published by the Government, is signed by six of the Committee's 18 members, the others regarding this question as falling outside their terms of reference.

The Functioning of Financial Institutions

The Committee considers that two of the most important developments since the time of the last inquiry into Britain's financial system, that of the Radcliffe Committee in 1959, have been, first, the increase in inflation and, secondly, the enormous growth, in real as well as in nominal terms, of the financial institutions, especially the banks, building societies, insurance companies and pension funds.

On inflation the Committee expresses the view that the need for financial institutions to maintain the real value of their capital during periods of inflation should be recognised by some form of adjustment to taxable profits for net monetary assets. It recommends that the Government should take note of this in its current review of company taxation.

In this part of the report the main recommendations on financial institutions concern the Stock Exchange and the building societies.

The Stock Exchange

The Committee discusses the structure of the Stock Exchange and considers the advantages and disadvantages of the single capacity system. According to this, members of the Stock Exchange act as principals (jobbers) or agents (brokers) but not as both. Jobbers buy and sell securities on their own account, dealing only with brokers and making their profit out of the margin between buying and selling prices. The Committee says that four main advantages are claimed for the single capacity system. First, as the Stock Exchange is the central market for securities in Britain, the jobbing system has the effect of concentrating transactions in any given security in one place, thus increasing the likelihood that prices will be set fairly in relation to supply and demand. The Committee does point out, however, that modern technology has shown that, in the United States, for example, it is possible to have a unified market without having a single market place. Secondly, in contrast to systems in which buyers and sellers are brought together directly by brokers, the jobbing system permits continuous dealing; an investor deals through a broker, with the jobber acting as principal, and does not have to rely on the existence of a matching order from another broker. Thirdly, a potential conflict between their own interests and those of other clients, which could arise if members of the Stock Exchange dealt both as principals and agents, is avoided without the need for special arrangements, as is the case in some other countries. Finally, the single capacity system is said to be more effectively self-policing than others since there are always two parties to every transaction and because, with more than one jobber dealing in each security and competing for brokers' business, market rigging and collusion can be detected more easily than otherwise.

The Building Societies

The Committee goes on to discuss the recommended rate system of building societies. (According to this system the Council of the Building Societies Association (BSA) makes recommenda-

tions to its members, who account for 99 per cent of total assets of building societies, about the interest rates they should charge on mortgages and pay on shares and deposits. Although these recommendations are not binding they are accepted by most members.) The system has been defended by the BSA as the best way to keep the mortgage rate as low as possible and to maintain equity between savers and borrowers, but has also recently encountered criticism, both from the building society movement, on the grounds that it keeps the mortgage rate below the market clearing rate, thus allowing queues for mortgages to become accepted as normal, and from outside, as it protects the less efficient societies and encourages wasteful non-price competition in such matters as the number of branches.

'The only sure way of providing a competitive spur to building societies is in our view to end the recommended rate system, that is, to allow societies to set their own rates according to their own circumstances and to break the present automatic link between the rates paid to depositors and those charged to borrowers', says the Committee. It also points out that if competitive rates were adopted, the mortgage rate would be likely to rise to meet the excess demand.

The Financial Institutions' Contribution to the Balance of Payments

The section of the report on the functioning of financial institutions ends with a discussion of their contribution to the balance of payments. The Committee points out that 'the financial institutions of the City of London have for long had a pre-eminent position in the financial markets of the world'. Despite the post-war decline in the importance of Britain in the world economy and the diminution in the role of sterling as a reserve currency, London has maintained its importance as an international financial centre by developing new areas of expertise, especially in the eurocurrency market (holdings by banks, companies or individuals of currencies outside their country of origin) and the eurobond market (the issue of bonds in a currency other than that of the country of origin).

The Committee reproduces information for 1970-78 on the overseas earnings of the groups of financial institutions with which it is principally concerned – those in insurance and banking, the long-term investing institutions (investment trust companies, unit trusts and pension funds) and the Stock Exchange.

London is easily the main centre for insurance business coming on to world markets and in 1978 the insurance industry had the highest net overseas earnings, £970 million, of the financial institutions. Of this, £392 million was underwriting income earned on overseas business written in Britain by Lloyd's underwriters and, to a lesser extent, by insurance companies, while £183 million arose out of business placed in the insurance market by insurance brokers on behalf of foreign customers. Direct investment income of insurance companies from the profits of their overseas subsidiaries was £276 million (£15 million of direct investment income being due to the overseas parents of foreign insurance companies in Britain) and the income from portfolio investment of the insurance companies and Lloyd's together totalled £134 million.

Banking is next in importance to insurance, with net overseas earnings of £652 million in 1978; £312 million of this arose from the provision of financial and allied services and £403 million was net interest on borrowing and lending either in sterling or in foreign currencies. Income from direct investment in, for example, overseas subsidiaries was £189 million but this was more than offset by £252 million due to overseas parents (in this context the Committee points out that 328 foreign banks were directly represented in London in 1979, with more foreign banks represented there than in any other financial centre).

The net overseas earnings of the long-term investing institutions arise from income on portfolio investment, which in 1978 amounted to £98 million.

In 1978 stockbrokers on the Stock Exchange earned £21 million from commissions on transactions undertaken for overseas residents. These earnings fluctuate with the strength of the stock market.

The Committee points out that the overseas earnings of the financial institutions discussed in the report have been in surplus throughout the period during which detailed statistics have been compiled (since 1965) and almost certainly for much longer. They are an important constituent of Britain's traditional surplus on invisible trade.

The Committee goes on to discuss the advantages London enjoys over other financial centres. These include its geographical position, being close to mainland Europe and between America and Asia; the sharing of a common language with the United States, which has been an important influence on the decisions of many major United States financial institutions to locate their main European offices in London; Britain's background of political and social stability, together with the City's reputation for a high level of integrity and financial security; and the maintenance by successive governments of a relatively flexible regulatory environment. This last point has contributed to the development in London of the eurocurrency market and the location there of foreign banks.

The Financing of Industry and Trade

The Committee addresses itself to the question of whether any failings in the level and quality of investment in Britain have been largely caused by 'an inadequate supply of finance, reflecting a failure in the functioning of the financial system, too high a price for finance, or an inability on the part of companies to find enough funds from their own resources, and if so, what can be done about it'.

The Committee examines the role of profits in the decision by businessmen to invest. It points out that, while the profitability of British companies has been reasonably well maintained in terms of historic cost, profits have failed to keep abreast with inflation. During most of the 1970s the real cost of capital has exceeded the real rate

of return for industrial and commercial companies. The Committee recognises that the sensitivity of investment to the cost of finance is a matter for some debate but nevertheless feels that 'over a long period a high cost of funds will decrease the level of investment'.

In discussing the role of the financial institutions in stimulating industrial investment the Committee examines in particular the growing dominance of the capital markets by the long-term investing institutions. It admits that these institutions are one of the strengths of the British financial system to the extent that, in combination with the well-developed capital market, they make possible the raising of equity and, in principle, long-term debt finance in amounts not always possible in other European countries. However, the Committee suggests that there are three particular ways in which these institutions, through no fault of their own but because of the framework in which they operate, may have contributed to the poor performance of the economy. First, because they are dealing with other people's money, institutional trustees and fund managers may be less willing than individual investors to accept high risks. Secondly, rational behaviour of the institutions in their position as dominant purchasers and the commitment of the authorities to published monetary targets have combined to produce a government securities market unsatisfactory to both parties. The Committee feels that the institutions' knowledge that the authorities would be obliged to sell a substantial amount of securities by certain dates may have encouraged the institutions to delay purchases until interest rates have risen, thus forcing the authorities to lower prices in order to avoid an excessive rate of monetary expansion. Conversely, on occasions when the authorities have met their funding and money supply targets, the belief that interest rates were due to fall has been general and the authorities have been able to validate this belief by raising prices. 'This has led', says the Committee, 'to substantial fluctuations in interest rates which have added to the general uncertainty in the economy.' Thirdly, the Committee draws attention to the concern that has been expressed about the extent to which pension and life assurance funds contribute to real investment, since a high proportion of their funds is used to purchase existing financial assets. However, the Committee points out that institutional purchases in the secondary market provide the sellers with funds, which may be regarded as fresh capital to borrowers.

In summing up its discussion of the role of the financial institutions in industrial investment, the Committee says: 'The difficulty is how to involve the institutions more closely with industry in the face of the constraints imposed by the number and expertise of their staff, their traditional approach to investment and the need to safeguard the interests of their constituents.'

The Committee unanimously recommends, as an encouragement to investment, the adoption of rediscounting arrangements for a specified amount of basic medium-term credit to industry. (Rediscounting is a means whereby the mismatch between the financial institutions' preference for long-term assets at fixed rates of interest and the preference, because of the risks associated with inflation, for industry to borrow for relatively short periods and at variable interest rates can be reconciled. The idea is that the Government would issue long-term securities and use the funds raised to rediscount medium-term bank loans.)

The Committee falls into three groups on the need for a new institution or facility to stimulate industrial investment. Nine members reject the idea of a new public or semi-public agency for this purpose; four members believe there to be a case for a new public sector investment bank; and five members (including the Chairman) put forward in a separate note of dissent the case for a new investment facility funded by the public sector and the long-term investing institutions along the lines proposed in evidence by the General Council of the Trades Union Congress.

Regulation of Financial Institutions

The Committee considers whether any changes are required in the existing arrangements for the supervision of financial institutions, especially the securities markets, the pension funds and the building societies. It says: 'The approach to the problem in the United Kingdom has traditionally been by devising methods of regulation which operate along less formalised lines than in most other major countries, with less emphasis on statute and more on non-statutory forms of regulation, especially self-regulation. This is widely believed to have had considerable advantages in terms of the range and cost of the financial services provided in this country and of the competitive edge shown by British institutions overseas. The attitude of the regulatory authorities is also often quoted as one of the main attractions of London as a centre for international business. Nor, despite the experience of the last decade, is there any reason to believe that countries with less flexible systems have been more successful in protecting the customers of their financial institutions from the risk of default.' For the regulation of the financial system as a whole the Committee recommends the creation of a new body to replace the existing Joint Review Body of the Bank of England and the Department of Trade, which oversees the securities markets.

A number of specific proposals made in the Committee's report are designed to improve the regulation of the securities markets and the supervision of pension schemes and the building societies.

The Bank of England

The report discusses the relationship of the Bank of England with central government and the extent of its independence, especially compared with that of central banks in other countries. The Committee feels that in a number of areas the Bank's influence and authority have increased, and recommends that the Governor of the Bank give further consideration to whether the staff has sufficient experience and qualifications to match the Bank's increased responsibilities, especially with regard to supervision of the capital markets. The Committee adds that the recent re-organisa-

tion of the Bank suggests that this point has already been taken.

The Committee welcomes the fact that, under the departmental structure of House of Commons select committees introduced in 1979 (see pp 176-7, 1979), the Bank has been brought within the scope of parliamentary scrutiny (being within the ambit of the committee on the Treasury and Civil Service).

Finally, the Committee recommends that non-executive directors of the Bank be drawn from a wider range of backgrounds and interests than at present and that their maximum period of service should be two four-year terms.

Public Ownership

The section of the report on public ownership covers two main areas, the possible nationalisation of existing financial institutions – in particular, of the London clearing banks and the major insurance companies – and the possibility of a merger of the National Girobank and the National Savings Bank (NSB).

While not opposed in principle to an increase in the involvement of the public sector in order to ease the financial problems discussed earlier in the report, the Committee does 'not believe that the nationalisation of existing banking or insurance institutions would be helpful. We have argued that the major constraints on individual investment are the low aggregate level of demand, poor capital/output ratios and the low level of profitability in relation to the cost of capital, which nationalisation by itself would do little to help.' The Committee points out that, had a completely new financial system been under consideration, some members 'would have believed that there was a role for publicly owned insurance companies and a greater role for publicly owned banks. But there is a considerable difference between this and attempting to change an already functioning system. Any economic gains from nationalising existing financial institutions have yet to be demonstrated and there would undoubtedly be costs, though it would be difficult to quantify these exactly.' The recommendation against any extension of the public sector in banking and insurance by way of nationalisation of existing institutions should not, however, the Committee warns, 'be taken as an indication that all of us are satisfied with the relationship between the financial institutions and industry and trade, or with the flow of funds into industry'.

A merger between two public sector institutions, the National Girobank and the NSB had been proposed in evidence to the Committee by a number of bodies although others had opposed the idea. After reviewing the arguments the Committee concludes: 'We cannot see any great advantages flowing from a merger. We do not believe that a new bank would be likely to have more than a marginal impact on competition above that presented by Girobank on its own, nor that it would have much of an immediate impact on industrial financing. We doubt its ability to fulfil the social role of attracting those presently without bank accounts much more successfully than the Girobank itself in the past.'

Competition Policy: Mergers, Company Organisation and Fair Trading

A major statement of Government policy towards mergers and 'demergers' was made by the Secretary of State for Trade, Mr John Nott, on 1 July. The basis of the policy was the need to promote competition, he said. A Government consultative document issued on the same day proposes to allow limited companies to purchase their own shares, in order to introduce greater flexibility into company organisation. The annual report of the Director General of Fair Trading, published on 18 June, contains a review of fair trading policy in the 1970s, and surveys the prospects for the 1980s. It too emphasises the importance of competition.

MR NOTT'S STATEMENT

The Secretary of State for Trade, Mr John Nott, made a statement at a press conference in London on 1 July on 'industrial structure, provisions for demerging, and mergers policy'. The theme of his statement, he said, was 'the underlying structure of economic activity in this country, its implications for economic performance and the government policies which affect it'.

The Structure of Economic Activity

It was difficult, he said, to assemble and interpret statistics about the structure of economic activity. Looking, first, at industrial concentration, there was no doubt that production in Britain had become much more concentrated since the second world war, both in total and in separate product areas. Firms had grown in size more through an increase in the number of plants owned than by an increase in plant size, so that it was questionable whether the growth of concentration had simply been the result of economies of scale. Moreover, growth had been achieved as much through mergers and acquisitions as through internal expansion. Compared with countries like France and the Federal Republic of Germany, Britain had more very large firms, and in particular more conglomerates with a diversified product range. It also appeared, said Mr Nott, that the small manufacturing firm sector was smaller in Britain than in many other countries.

Demergers

Government policy had hitherto allowed firms to organise on a large scale if they wished, said Mr Nott. There had been less concern with the possibility that firms, having expanded, might wish to 'demerge', that is, to divide into independent smaller units. It was not just a question of helping to rectify unsuccessful mergers, he said, but of removing unnecessary obstacles to dividing when it made sound commercial sense to do so.

Some steps had already been taken. The Chancellor of the Exchequer had announced in his Budget speech (see p 120) that legislation would

be introduced to remove possible tax penalties which might have deterred demergers in the past, and a new Government clause had accordingly been added to the Finance Bill. The Department of Trade, said Mr Nott, was that same day publishing a consultative document proposing an amendment of company law to enable companies in certain circumstances to buy their own shares (see below).

Merger Policy

Mr Nott next explained the main guiding principles of the Government's merger policy. There could be no hard and fast rules, he said; the Government had to leave itself flexibility to weigh up all the factors. The present regime for merger control was not burdensome. Under this mergers could be referred to the Monopolies and Mergers Commission (MMC), and if the MMC found that a merger did or would operate against the public interest, the Secretary of State had powers to prevent it. Most mergers fell outside the scope of the legislation, said Mr Nott, and only a handful of references were made to the MMC each year. In practice very few mergers had been held up for full investigation since 1965 and less than 1 per cent of referable mergers had been adjudged to be against the public interest.

This policy had operated against a background of prevailing belief in the 1960s and early 1970s that extensive mergers were necessary to improve industrial efficiency. More recently, however, there had been widespread scepticism about their results and it seemed appropriate now to re-appraise the policy. An earlier re-appraisal had been carried out in 1978 by a working party set up by the previous Government which had suggested that the approach to mergers in general should be neutral rather than favourable as in the past (see pp 215–16, 1978). The working party had also suggested that an assessment should be made of the effects of any merger on competition and that, if an adverse effect on competition were found, a demonstration of the positive benefits of the merger would be required. Since taking over responsibility for merger policy, Mr Nott said, he had considered the proposals but had not been convinced that there would be any advantage in the formal procedures proposed by the working party. He had therefore decided against new legislation on mergers for the time being; but that was not an end to the matter. The experience of the last 15 years or so had to be taken into account. He would expect the competition authorities to look first and foremost at whether a merger would be detrimental to effective competition, and, if it were judged to be so, careful attention would have to be paid to the other advantages or drawbacks that might arise for the economy. 'In the light of experience', said Mr Nott, 'one would be bound to take a hard and sceptical look at any suggestion that a merger would automatically lead to rationalisation, economies of scale, or other miraculous transformations.'

This was not a novel policy, however. It had been embodied in the Fair Trading Act 1973 (see pp 41–2, 1973), which placed the main emphasis on maintaining and promoting competition. Mr Nott wished to re-emphasise this as the basis for applying merger control. The question had to be considered in a broad and practical sense, and there were no simple rules, but, in general, a careful look had to be taken at mergers which eliminated direct competitors in a market, or which linked suppliers with customers. On the question of conglomerate, or diversifying, mergers, Mr Nott said that there was nothing sinister in diversification as such. But the acquisition of a successful company by a large and unrelated one which was 'merely shopping around when flush with funds' in order to improve its share price, might involve a diminution in competition and no evident gain in efficiency. In such cases an assessment by the MMC might be necessary, although, once again, it was difficult to generalise.

The internationalisation of trade meant that markets now had to be defined in European or even world terms, Mr Nott said, and acquisition of British firms by overseas ones, and vice versa, might well lead to increased competition at home and abroad. None of this was inconsistent with the Government's policy of promoting competition. He did not expect the policy to lead to more merger references. It should, however, ensure that the reasons for individual references were more fully understood, and might, he said, 'lead the MMC to shift the balance slightly in the number of mergers which they find to operate or to be likely to operate against the public interest'. It would, he hoped, increase the number of instances in which mergers were better thought out before they were embarked upon.

In conclusion, Mr Nott said that the structure of British industry had to be flexible enough to respond to the changing needs of the market. This included being able to adapt existing business organisations, for instance, by breaking them down into smaller units. While mergers would often continue to be a beneficial response to change, he said 'we must guard against those whose effect is mainly to stifle market forces and against the needless accumulation of ever larger and more unwieldy concentrations of power and control'.

PURCHASE OF OWN SHARES

Proposals which, if implemented, would enable limited companies to purchase their own shares, were set out in a Government consultative document[1] published on 1 July. They reflect the Government's intention to introduce greater flexibility into company organisation.

The document is in two parts. The first sketches the background to the proposals, considers taxation aspects, and lists a number of issues on which the Government invites comments. The second part is a discussion of present company law and possible amendments to it written by Professor L. C. B. Gower, the Research

[1] *The Purchase by a Company of its Own Shares: A Consultative Document.* Cmnd 7944. HMSO, £2·25. ISBN 0 10 179440 1.

Adviser on Company Law to the Department of Trade, and represents his views rather than those of the Government.

The document says that company law has not permitted a limited company to buy its own shares in the past because this could reduce the capital of the company available for the protection of those who deal with the company and also because it could enable firms to traffic in their shares.

The Government attaches particular importance to 'the principal economic arguments in favour of a relaxation of the present law'. These are that, 'for private companies, a change should make investment and participation in such companies more attractive, by providing shareholders with a further means of disposing of their shares and by permitting the remaining members to maintain control and ownership of the business . . . . Public companies with surplus cash resources could find it useful to be able to buy their own shares and thus return surplus resources to shareholders, thereby removing the pressure on such companies to employ those surplus resources in uneconomic ways, and enabling shareholders to deploy the resources to better effect.'

It is stressed that 'any changes in the law would need to be accompanied by safeguards for the interests of creditors, shareholders and others interested in the company'. It is noted that the provisions of the second European Community directive on company law (see p 324, 1977, and pp 341-2, 1979) would also have to be taken into account.

In the second part of the document, Professor Gower reviews the present legal position in Britain and the practice in other European Community countries and in the United States, where companies are allowed to buy their shares under certain and various conditions. Examining the case for amending British law, he draws attention to the argument that shareholders needing to sell shares in a small unlisted company might be unable to find a buyer other than perhaps a financial institution or a public company, and that this could be one of the factors leading to excessive concentration of industry and commerce. In conclusion, Professor Gower discusses the main amendments to company law to which he thinks consideration should be given. These are: permitting private companies to operate employee share schemes otherwise than through trustees (a process normally too complicated for small firms) and to buy shares in such schemes; permitting private companies to repurchase their own shares for cancellation (this would mean that a company could not re-sell the shares, but concessions are proposed which would allow it to bring in a new shareholder in place of the one bought out without payment of further capital duty); providing private companies with a less formal means than at present (which entail court proceedings) of reducing their capital – while maintaining safeguards for interested parties; and permitting public companies to re-purchase their own shares for cancellation, the chief advantage of which would be that companies could 'go public' without obtaining a Stock Exchange listing, since the companies themselves would provide an alternative market.

Representations on the issues raised in the document are to be sent to the Department of Trade, Companies Division, Room 513, Sanctuary Buildings, 16-20 Great Smith Street, London SW1P 3DB by 30 September 1980. It is intended that provisions dealing with the purchase of own shares should be included in a Companies Bill to be introduced in the next session of Parliament.

ANNUAL REPORT OF THE DIRECTOR GENERAL OF FAIR TRADING

The activities of the Office of Fair Trading (OFT) and the Monopolies and Mergers Commission (MMC) in 1979 are outlined in the annual report[1] published on 18 June. In an introduction the Director General of Fair Trading, Mr Gordon Borrie, reviews the performance of the OFT in the 1970s and looks forward to the role it can play in the 1980s.

The 1970s

Mr Borrie picks out several highlights of consumer protection in the 1970s – the enactment of several refinements to consumer law (such as the banning of notices in shops misleading customers about their legal rights); the extension of restrictive trade practices law to include services; the development of self-regulatory codes for various trades; and the introduction of initiatives by the OFT on matters such as used-car sales, labelling, and home-improvement.

In the field of competition policy Mr Borrie notes that the 1970s were a decade of increasing concentration and of growth in mergers falling within the legal scope of the OFT. The legislation to deal with restrictive trade practices and resale price maintenance has had substantial success, he says, though there are some loopholes which need to be closed.

A major landmark of the 1970s was the passing of the Consumer Credit Act (see pp 176–7, 1974), with its provision for the licensing of almost everyone in the credit and hire business. Before the Act there was no control at all in some areas of credit. The Director General's licensing powers had enabled him to begin to deal with a variety of unfair and harmful practices.

The 1980s

In the next decade, says Mr Borrie, the process of concentration in British industry is likely to continue. At the same time the international context in which British industry trades is likely to become more competitive. However, competition policy has evolved into a sufficiently flexible instrument to take account not only of technological circumstances which may require a concentrated structure for some British industries but also the impact of import competition in the domestic market, Mr Borrie believes. The policy has a positive role to play; there is no evidence to suggest that monopolistic behaviour is more likely to provide the British economy with the stimulus it needs.

[1] *Annual Report of the Director General of Fair Trading.* HMSO, £4. ISBN 0 10 262480 1.

Mr Borrie foresees few dramatic changes in the area of consumer protection in the 1980s because a sound legislative foundation has been built in the last 20 years. There remains a need, nevertheless, to educate and inform the consumer, to enforce the law, and to provide adequate machinery for redress. Further progress can also be made with self-regulatory codes for traders, and through the consolidation of the arrangements for monitoring the conduct of credit licensees.

A Competitive Market

In conclusion Mr Borrie recognises that, while consumer legislation places certain administrative burdens on industry, many of the measures criticised as 'consumerist' prove on closer examination to have wider economic or social objectives in view and to 'involve manufacturers and traders in doing no more than they would want to do in a competitive market'. The OFT will be operating in the 1980s in conditions very different from those of the 1970s, but he thinks it unlikely that the main purpose – to help ensure fairness in trading – will be changed. Experience shows that 'fair trading is most likely to occur where the opportunities for abuse of market power are limited, where innovation is not frustrated by the ability of existing companies to block entry of new companies to the market, and where entrepreneurs are encouraged to accept the desirability of consumer choice'.

OFT Activities in 1979

Other sections of the report review and provide statistics on consumer affairs, consumer credit and competition policy in 1979. Consumer affairs activities included the issue of a paper on the used-car market and of a guide for manufacturers on guarantees, legislation on bargain-offer claims and on the inclusion of value added tax in prices for the supply of food, and the introduction of four new codes of practice – bringing the total in operation to 18. About 96,000 applications had been received for licences under the Consumer Credit Act up to the end of 1979 and over 86,000 had been issued. Major developments during the year were a marked growth in the number of licences revoked and a widening of the matters to be taken into account when considering fitness to hold a licence. Under competition policy 257 mergers – 12 per cent more than in 1978 – were considered by the OFT; three references were made to the MMC; 348 monopoly complaints were received; and 246 restrictive agreements (132 for goods, 114 for services) were registered during the year.

Coal Industry Bill

The Coal Industry Bill, which contains provisions to make resources available to the National Coal Board (NCB) under the Government's new financial strategy for the coal industry, has been given its second reading in the House of Commons. It proposes a framework within which the NCB can put the coal industry on a sound financial footing. The Bill sets a new limit on operating grants payable to the NCB and these are being phased out over the period 1979-80 to 1982-83 in accordance with the objective set by the Secretary of State for Energy for the NCB to return to profitability from 1983-84.

Parliamentary Debate

The Bill received its second reading in the House of Commons on 17 June (*Hansard*, Vol 986, No 193, cols 1377-478).

Government View

Opening the debate, the Secretary of State for Energy, Mr David Howell, said that the Bill was 'an expression of the Government's confidence in the future of coal' and in those who worked in the coal industry. Mr Howell said that coal was Britain's 'greatest single natural resource'. Total coal resources were around 200,000 million tonnes and the NCB's estimate of operating reserves at existing mines and those in the planning stage totalled about 10,000 million tonnes. About 45,000 million tonnes were thought to be suitable for extraction by existing technology and its developments, sufficient to last over 300 years at current rates of extraction. By any standards this was 'a secure indigenous source of energy'. As oil became dearer, supplies more vulnerable and less reliable world-wide, and as Britain's offshore oil and gas resources declined in the 1990s, he was confident that new opportunities and a new demand for coal would arise. Accordingly, coal, together with nuclear energy and higher energy efficiency through conservation, had a central place in Britain's energy policy. Mr Howell also noted one special advantage of coal over nuclear energy, that, whereas nuclear power would be used for the foreseeable future only for the generation of electricity, coal could look forward to new markets. New opportunities were likely in the industrial and commercial markets, and in the longer term, provided that the industry could meet these market requirements at competitive prices, coal might be exploited as a source of liquid and gaseous fuels and of chemical feedstocks by way of gasification or liquefaction. As these new markets opened up, the industry could hope to move away from its present overwhelming dependence on sales to the electricity industry.

Mr Howell said that the future therefore held major prospects for the industry. He noted that, as the benefits worked through from the substantially increased capital investment since 1974 under the 'Plan for Coal' (see pp 435-6, 1974, and 125-6, 1977), there were encouraging signs that the long-term decline in deep-mined output and in productivity had been reversed. In 1979-80 deep-mined output increased over the previous year for the first time since 1963 if years affected by industrial disruption were not taken into account. Output per manshift also rose and output per man-year was 4·5 per cent higher than in 1978-79. He noted that the industry's relations

with its suppliers in the mining machinery industry were in many ways a model and that British mining machinery led the world. There was the 'greatest expertise and dedication at all levels of the industry' and 'a long tradition of constructive discussions between management and unions and, where necessary, of tripartite discussions between management, unions and Government, which must be the foundation for continued cooperation in future'. The Government's strategy had been developed with these points in mind.

The Secretary of State then outlined the Government's strategy for the industry. He said that the Government would continue to support the NCB's capital expenditure on projects that would produce efficient capacity. The NCB was 'in the middle of replacing old, often worn-out, uneconomic capacity with new high-yielding faces and collieries, creating a new industry out of the old one'. Over £1,000 million had been invested since 1973 and the latest White Paper on public expenditure (see pp 123-30) contained provision for capital expenditure by the NCB of £600 million a year at 1979 prices over the next four years. The Bill would increase the limit on the NCB's borrowing powers from £2,200 million to £3,400 million, with provision for a further increase to £4,200 million. The new level was expected to be sufficient to last the Board for about three years, depending on its success with other parts of the financial strategy. Thereafter, Parliament would have the opportunity for a further review of progress before authorising further increases. The Bill also provided for the Secretary of State to make deferred interest loans to the NCB to finance expenditure on capital projects with long lead times. If the NCB took advantage of this possibility, it would be able to match the interest payments on major projects more closely to the projects' earnings than at present. This provision was a 'new departure in nationalised industry finance'. The Secretary of State stressed that the interest would be deferred, not forgone, and that the Government would not be asking the taxpayer to bear an additional burden.

Mr Howell said that the coal industry could take advantage of the available opportunities only if it was 'efficient, competitive, profitable and free from dependence on government subvention'. However, in recent years the industry's reliance on finance from the Government had been growing and it had last made a profit before operating grants in 1976-77. Following a thorough review of the NCB's financial position, it had been clear that, despite encouraging signs of higher productivity and output, this situation could not continue. Accordingly, the Government had decided that the NCB should be set a firm financial objective, which should take the form of a phased return to independent financial viability over a number of years. He had therefore set the NCB the objective of returning to profitability, on a historic cost basis after interest payments and social grants, from 1983-84 onwards. Meanwhile, the Government would continue to provide support through operating grants. The Bill provided for a limit on these grants of £525 million over the four years 1979-80 to 1982-83, with provision for an increase to £590 million if necessary. It was essential that, as the NCB moved back to profitability, operating grants should decline year by year according to a pre-determined plan. Maximum amounts for the grants (excluding social grants) had been set: £135 million for 1980-81, £109 million for 1981-82 and £28 million for 1982-83 (all in terms of 1978-79 prices and which would be adjusted by the Government to each year's values). Changes would also be made in the way operating grants were paid. The bulk of operating grants to the NCB would take the form of a single deficit grant which would be paid up to the maximum levels to offset the deficit arising on all the Board's operations. The Bill repealed the power to pay a regional grant to the NCB as this was no longer required under the new financial arrangements.

Mr Howell said that it was 'completely right that the Government should help the industry in its unique circumstances to cope with the strain of changing from an old industry to a new and expanding one, and help individuals who would otherwise bear an unfairly large share of the transition'. The Government would therefore continue the established social grants including its contribution to the social cost of pit closures and to the cost of the redundant mineworkers' payments scheme. He was proposing a number of improvements in social grants including an increase in the lump sum paid to men under 55 who became redundant and an increase in the limit on the Government's contributions to the industry's pneumoconiosis compensation scheme from £100 million to £107 million.

Opposition View

The Opposition's chief spokesman on energy, Dr David Owen, moved an amendment to the effect that the House of Commons should not give a second reading to the Bill as it would place the NCB under severe financial pressure to accelerate pit closures, putting at risk the planned indigenous coal output targets which were a vital part of the national energy policy of self-sufficiency, at a time when other coal-producing countries in Europe were increasing support for their coal industries. Dr Owen said that the Opposition's central charge against the Bill was that the financial targets were first discussed and negotiated with the NCB in August 1979 and that subsequent events had made it extremely doubtful that the NCB could keep within these targets. The Opposition feared that the Secretary of State was putting the NCB into 'a financial straitjacket'.

The Opposition's amendment was defeated by 291 votes to 229, a Government majority of 62.

Shorter Notes

ORIGIN MARKING OF CONSUMER GOODS

A Government consultative paper[1] inviting comments from interested parties on the compulsory

[1]*Country of Origin Marking of Certain Consumer Goods.* Available from the Department of Trade, 1 Victoria Street, London SW1H 0ET.

origin marking of certain consumer goods was issued on 21 May. Speaking in London, the Minister of State for Consumer Affairs at the Department of Trade, Mrs Sally Oppenheim, said that she intended to prepare legislation, in the form of draft orders, to be put before Parliament in the autumn. Clothing, textiles, footwear, domestic electrical appliances and cutlery had been selected as those products for which consumers had most need of origin information, she said, but others might be added later. The paper states that the need for wider origin marking was indicated firstly by surveys conducted in 1979 which had found that consumers wanted it because they associate country of manufacture with the quality of a product, and secondly by an apparent increase in the use of foreign-sounding names or words which mislead consumers about the country of origin of various goods. (At present British law only requires origin marking for imported goods bearing a name or mark likely to be taken for British.) Among the issues raised in the paper are whose responsibility it would be to see that products were marked (wholesalers or retailers, for example), the size and permanence of the mark, whether the names of well-known towns or regions would be acceptable instead of the names of countries, and how far advertisements would also need to show origin marking. The question of what is meant by 'origin' receives special attention in the paper, since some goods are assembled or substantially changed in countries other than those in which they were initially produced. If there is doubt about origin, the Department of Trade has the power to make a final decision on the matter. The paper underlines the need to take into account existing origin marking practices, both voluntary and compulsory, so as to avoid placing unnecessary burdens on traders.

INTELPOST

The world's first international public facsimile transmission service, known as Intelpost, was inaugurated on 17 June when the first letter was sent by the Chairman Designate of the Post Office's postal business, Mr Ron Dearing, from the Stock Exchange Post Office in London to the Canadian Postmaster General at the Intelpost Centre in Toronto. Intelpost makes possible the reproduction of letters, documents, plans and diagrams which can be available in London or Toronto for collection or onward transmission three hours after being handed in at the centre in the other city. Pages up to A4 size (297 mm by 210 mm) can be transmitted. A scanning machine photographs the original document in black and white and the copy is then transmitted in digital form via a satellite over the Atlantic. The service is expected to be particularly useful for people such as businessmen, designers and lawyers for whom urgent copies of original documents are essential or important.

Intelpost links with other countries, including the Netherlands and nations in the Far East, are being considered. The Post Office also has plans for a facsimile service between the principal cities of Britain which will complement its existing high-speed services such as Expresspost and Datapost. It intends to introduce the first link in this service, between London and Belfast, by the end of 1980 and to extend the service to other cities during 1981.

ROADS

The Government intends to stabilise spending on trunk roads at a level the nation should be able to afford, according to a White Paper, published on 5 June, which contains a comprehensive statement of government policies for the trunk road network in England.[1] Expenditure will be maintained at roughly the level reached after the cuts made by the previous Government. About £300 million a year (at November 1978 prices) will be available in the next four years for new road construction and improvement in England, and about £90 million a year for maintenance. Within the programme there are three major priorities: roads which aid economic recovery and development, roads which bring environmental benefits, and maintenance of the investment in motorways and trunk roads. The White Paper says that an outstanding example of the first category is the M25 orbital motorway which when completed will provide a quick, safe and convenient route around Greater London and will in particular help to improve transport links to the rest of Europe and to the London airports. High priority will also be given to improving links to major ports, such as Hull, Immingham, Tilbury and Southampton, and another important aim will be to build roads which remove restraints on industrial development, especially where poor communications make it difficult to attract new firms to replace declining industries. New schemes on the main industrial routes and routes to ports will also help to relieve a number of towns and villages which are congested with heavy traffic, but the White Paper says that there are also serious problems on a number of other routes. Accordingly, the Government has decided to fit as many by-passes as possible into the programme including those of a number of historic towns, such as Berwick-upon-Tweed, Lincoln and Ely, but to accommodate

[1] *Policy for Roads: England 1980.* Cmnd 7908. HMSO, £3·50. ISBN 0 10 179080 5.

these schemes some less urgent schemes on major routes have been postponed. In the longer term the White Paper foresees a change in the balance of the road programme. The bulk of the major industrial routes should be completed by the mid-1980s and increasingly the emphasis will shift towards smaller schemes dealing with specific local problems.

About £261 million at 1979 prices is likely to be spent over the next four years on the construction, improvement and maintenance of trunk roads in Scotland, according to a statement setting out the Government's policy on roads in Scotland.[1] Priority will be given to the completion of the central Scotland motorway network and to the completion of other important strategic routes, but there will be less emphasis on major inter-urban projects and more on schemes designed to solve problems of congestion and damage to the environment.

[1] *Roads in Scotland 1980.* Available from the Scottish Development Department, New St Andrew's House, Edinburgh EH1 3SZ.

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Review of Fire Policy: An Examination of the Deployment of Resources to Combat Fire. The report of a three-year review by government departments. The review concludes that, although the fire services and the present pattern of preventive legislation provide a substantial degree of protection from fire, a different disposition of resources would bring about a better return. The basis of the attack on fire would be made more selective and be more specifically directed at those factors which are primarily responsible for the present levels of loss of life and property. Home Office, £6·50. ISBN 0 90 372787 0. The results of the review are summarised in a government Green Paper entitled *Future Fire Policy: A Consultative Document.* HMSO, £2·25. ISBN 0 11 340731 9.

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Race Relations and the 'Sus' Law. Second Report from the Home Affairs Committee of the House of Commons, Session 1979–80. The Government is considering the committee's recommendation that the 'suspected person' provision of the Vagrancy Act 1824 should be repealed in the wider context of the criminal law as a whole and in view of proposals on the law of attempt made by the Law Commission in a report soon to be published. HMSO, £5·50. ISBN 0 10 255980 5.

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